United Nations

United Nations Joint Staff Pension Fund

Report of the United Nations Joint Staff Pension Board

General Assembly

Official Records • Forty-ninth Session
Supplement No.9 (A/49/9)

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ABBREVIATIONS

ACABQ	Advisory Committee on Administrative and Budgetary Questions
ACC	Advisory Committee on Coordination
ADB	Asian Development Bank
CCAQ	Consultative Committee on Administrative Questions
CCISUA	Coordinating Committee for Independent Staff Unions and Associations of the United Nations System
EPPO	European and Mediterranean Plant Protection Organization
EBRD	European Bank for Reconstruction and Development
FAFICS	Federation of Associations of Former International Civil Servants
FAO	Food and Agriculture Organization of the United Nations
FICSA	Federation of International Civil Servants' Associations
IAEA	International Atomic Energy Agency
IBRD	International Bank for Reconstruction and Development
ICAO	International Civil Aviation Organization
ICCROM	International Centre for the Study of the Preservation and the Restoration of Cultural Property
ICITO/GATT	Interim Commission for the International Trade Organization/General Agreement on Tariffs and Trade
ICSC	International Civil Service Commission
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMF	International Monetary Fund
IMO	International Maritime Organization
ITU	International Telecommunication Union
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization

I. INTRODUCTION

1. The United Nations Joint Staff Pension Fund was established in 1949, by a resolution of the General Assembly, to provide retirement, death, disability and related benefits for staff upon cessation of their services with the United Nations, under Regulations that, since then, have been amended at various times.

2. The Fund is administered through the United Nations Joint Staff Pension Board, which consists of 33 members, representing the 16 member organizations that are listed in annex IX below. One third of the Board members are chosen by the General Assembly and the corresponding governing bodies of the other member organizations, one third by the executive heads and one third by the participants. The Board reports to the General Assembly on the operations of the Fund and on the investment of its assets. When necessary, it recommends amendments to the Regulations which govern, inter alia, the rates of contribution by the participants (currently 7.9 per cent of their pensionable remuneration) and by the organizations (currently 15.8 per cent), eligibility for participation and the benefits to which participants and their dependants may become entitled. Expenses incurred by the Board in the administration of the Fund - principally the cost of its central secretariat at United Nations Headquarters in New York and the expenses of managing its investments - are met by the Fund.

3. The present report is submitted by the Board following its forty-sixth session, held from 18 to 29 July 1994 at the headquarters of the International Atomic Energy Agency (IAEA), in Vienna. The members, alternate members and representatives accredited to the session of the Board and those who actually attended are listed in annex X below.

4. The major items dealt with by the Board were: (a) actuarial matters, including in particular the twenty-second actuarial valuation of the Fund as at 31 December 1993 and, related thereto, the requests made by the General Assembly in resolutions 47/203 of 22 December 1992 and 48/225 of 23 December 1993 that the Board consider the form and content of its presentation of the results of the valuations; (b) the management of the investments of the Fund, including reports by the representative of the Secretary-General for the investments of the Fund on the investment strategy and performance, on new custodial arrangements for the Fund's investments and on the membership and size of the Investments Committee; (c) additional studies of various aspects of the pension adjustment system, including the specific requests made by the Assembly in resolutions 46/192 of 20 December 1991 and 47/203; and (d) amendments to article 54 of the Regulations of the Fund to clarify its provisions or eliminate certain lacunae related to the definitions of pensionable remuneration of staff in the Professional and higher categories, of ungraded officials and of United Nations Field Service Staff, as well as longevity/merit increments.

5. Under actuarial matters, the Board also reviewed (a) the interest rate and mortality tables used to determine lump-sum commutations and (b) the maximum number of years of creditable contributory service in the Fund, both issues having been considered in 1991 and remitted for further review this year, in the light of the results of the actuarial valuation of the Fund as at 31 December 1993. In addition, the Board approved and submits herein, for the concurrence of the General Assembly in accordance with article 13 of the Fund's Regulations, the texts of new Agreements on the transfer of pension rights, with the Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD).

6. The Board decided to provide, in a separate section of the present report, a detailed description of the developments during the past year in respect of the continuing problems related to the interpretation and application of the transfer agreement between the Fund and the former Union of Soviet Socialist Republics, Ukrainian Soviet Socialist Republic and Byelorussian Soviet Socialist Republic, on which the Board had reported to the General Assembly at its last three sessions. 1/, 2/, 3/

7. The Board examined and approved the financial statements and schedules for the year ended 31 December 1993, and considered the report of the Board of Auditors on the accounts and operations of the Fund. In respect of administrative expenses, the Board decided to request additional temporary assistance resources related, for the most part, to the need to recalculate and revise a large number of retirement and other lump-sum benefits because of retroactive revisions of General Service salary scales in Geneva, arising from a recent ILO Administrative Tribunal Judgment.

8. The Board reviewed the application for membership in the Fund by the International Centre for Genetic Engineering and Biotechnology (ICGEB) and decided to recommend to the General Assembly, under article 3 (c) of the Fund's Regulations, that ICGEB be admitted to the Fund with effect from 1 January 1996, subject to confirmation before the proposed entry date that ICGEB had adopted staff regulations, rules and salary scales which adhered to the common system of salaries, allowances and other conditions of service.

9. As requested by the General Assembly in resolution 46/192, the Board re-examined the size and composition of both the Board and its Standing Committee and decided not to recommend any changes at the present time, but to keep the matter under review. It also considered the frequency of meetings of the Standing Committee and attendance at Board sessions and at meetings of the Standing Committee.

10. The membership of the Standing Committee, which acts on behalf of the Board when the latter is not in session, is given in annex XI below.

11. The membership of the Committee of Actuaries, established under article 9 of the Regulations, is given in annex XII below.

12. The membership of the Investments Committee, established under article 20 of the Regulations, is given in annex XIII below.

13. Section II below contains a summary of the operations of the Fund during the year ended 31 December 1993. Sections III to VIII contain accounts of matters on which action is required by the General Assembly, as well as matters on which the Board is obliged to report to the Assembly. A draft resolution for the consideration of the General Assembly is contained in annex XVI below.

II. SUMMARY OF THE OPERATIONS OF THE FUND FOR THE YEAR ENDED 31 DECEMBER 1993

14. During the year, the number of participants in the Fund increased from 61,968 to 63,329, or by 2.2 per cent; the number of periodic benefits in award increased from 33,923 to 35,435, or by 4.5 per cent. On 31 December 1993, the breakdown of the periodic benefits in award was as follows: 11,688 retirement benefits, 6,427 early retirement benefits, 5,736 deferred retirement benefits, 4,963 widows' and widowers' benefits, 5,896 children's benefits, 669 disability benefits and 56 secondary dependants' benefits. In the course of the year, 4,186 lump-sum withdrawal and other settlements were paid. A breakdown by member organization of participants and of benefits awarded will be found in annex I below.

15. During the same period, the principal of the Fund increased from $10,246,849,744 to $11,160,603,611, or by 8.9 per cent (see annex II, statement I, below).

16. The investment income of the Fund during the year amounted to $893,907,978, comprising $567,664,880 in interest and dividends and $326,243,098 in net profit on sales of investments. After deduction of investment management costs amounting to $13,827,607, net investment income was $880,080,371. A summary of the investments as at 31 December 1993, and a comparison of their cost and market values, will be found in annex II, schedules 2 and 3, below.

III. ACTUARIAL MATTERS

A. Actuarial valuation of the Fund as at 31 December 1993

Introduction

17. Article 12 of the Fund's Regulations provides that "the Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary". 4/ The primary purpose of the actuarial valuation is to determine whether the present and estimated future assets of the Fund will be sufficient to meet its liabilities. The practice of the Board has been to carry out a valuation every two years.

18. The twenty-first actuarial valuation of the Fund was made as at 31 December 1990 and its results were reported to the General Assembly at its forty-sixth session, in 1991. 5/ As a consequence of the decision taken by the Assembly at that session to biennialize the programme of work of the Fifth Committee, the date of the twenty-second valuation was rescheduled to be as at 31 December 1993, rather than 31 December 1992. Subsequent valuations will be carried out every two years, i.e. as at the end of December of odd-numbered years.

19. The Consulting Actuary submitted to the Board at its forty-sixth session the report on the twenty-second actuarial valuation of the Fund as at 31 December 1993. The Board also had before it the observations of the Committee of Actuaries, which had examined the valuation report prior to its submission to the Board.

Actuarial valuation bases

20. The valuation had been prepared on the basis of the actuarial assumptions recommended by the Committee of Actuaries and approved by the Board in June 1993, and in accordance with the Regulations and Administrative Rules of the Fund in effect on the valuation date. These assumptions were reported to the General Assembly in 1993. 6/ As in the past, the valuation reflected a fully dynamic basis, which assumes inflation to continue indefinitely in the future and with certain assumptions as to the growth in future years in the number of participants.

21. As was done in the last three valuations, the actuarial value of the assets as at 31 December 1993 was determined on the basis of a five-year moving market average method, subject to a limiting range of 15 per cent below and above the market value of the assets as at 31 December 1993. In determining future developments, three different sets of economic assumptions were used regarding: (a) the rate of increase in pensionable remuneration (in addition to increases arising from promotion and step increments); (b) the interest rate (or the expected rate of return on investments); and (c) the rate of cost-of-living increases of pensions after award. The real rates of return, that is, the interest rates minus inflation, assumed for the three economic bases were 2, 3 and 4 per cent a year. The table below provides a summary of the three sets of economic assumptions, which were also used in the four previous valuations.

Economic assumptions	I	II	III
		(per cent)	
Increases in pensionable remuneration (in addition to static increases)	6.5	6.5	6.5
Nominal rate of interest (investment return)	8.0	9.0	10.0
Increases in pensions after award	6.0	6.0	6.0
Real rate of interest (investment return after inflation)	2.0	3.0	4.0
Usual designation	6.5/8/6	6.5/9/6	6.5/10/6

22. As regards future growth in the number of participants, two sets of assumptions were used in the 1990 valuation. The first set consisted of zero growth for the first three years, followed by growth in each of the next 17 years of 0.5 per cent for Professional staff and 1 per cent for General Service staff, with zero growth thereafter for all staff, hereafter referred to as the "3-20-year participant growth assumption". The second set consisted of 0.5 per cent and 1 per cent growth in the number of Professional and General Service participants, respectively, for the first 20 years and zero growth thereafter, hereafter referred to as the "20-year participant growth assumption".

23. The future participant growth assumptions used in the 1993 valuation were similar: the first set consisted of 0.5 per cent and 1.0 per cent growth for each of the first 20 years for Professional and General Service staff, respectively, with zero growth thereafter for all staff - hereafter referred to as the "20-year participant growth assumption"; the second set consisted of (a) for General Service staff, 1 per cent growth for each of the first five years, followed by 1 per cent growth for each of the next 15 years and zero growth thereafter; and (b) for Professional staff, 1 per cent growth for each of the first five years, 0.5 per cent growth for the next 15 years and zero growth thereafter, hereafter referred to as the "5-15-year participant growth assumption".

24. As reported to the General Assembly in 1993, 7/ on the recommendation of the Committee of Actuaries, two changes were made in the demographic assumptions that had been used in the previous valuation: (a) the mortality rates for pensioners were reduced to reflect the increasing life expectancy for both male and female pensioners; and (b) the rates of disability for active participants were reduced to reflect recent past experience. It had been estimated last year that the change in (a) above would increase the actuarial costs by 1.05 per cent of pensionable remuneration, and that the change in (b) above would decrease the actuarial costs by 0.20 per cent of pensionable remuneration.

Regular Valuation

25. The Committee of Actuaries recommended and the Board approved that the 6.5/9/6 set of economic assumptions (i.e. real rate of investment return of 3 per cent) and the "20-year participant growth assumption" should serve as the basis for the Regular Valuation. These assumptions were consistent with those used in the previous Regular Valuation.

Analysis of the Regular Valuation results

26. The table below provides a comparison of the results of the twenty-first and twenty-second actuarial valuations, based on the same economic assumptions and on several future participant growth assumptions. It shows the required contribution rates and the imbalance rates as at 31 December 1990 and as at 31 December 1993.

		Contribution rate required (as percentage of pensionable remuneration)		
Valuation date	Valuation basis	Total required	Fund rate	Excess over Fund rate (imbalance)
31 December 1993	6.5/9/6, with participant growth assumptions:			
	20-year (Regular Valuation)	25.19	23.7	1.49
	5-15 year	25.12	23.72	1.42
31 December 1990	6.5/9/6, with participant growth assumptions:			
	3-20-year (Regular Valuation)	24.27	23.7	0.57
	20 year	24.17	23.7	0.47

27. As can be seen from the above table, the Regular Valuation as at 31 December 1993 showed an increase of 0.92 per cent in the required contribution rate (from 24.27 per cent to 25.19 per cent). The elements contributing to the increase in the imbalance were as follows:

	Elements	Increase (decrease) in imbalance (as percentage of pensionable remuneration)
(a)	Interest on prior imbalance	0.17
(b)	Investment experience	(0.01)
(c)	Net effect of changes in actuarial assumptions	1.02
(d)	Net effect of changes in the value of the US dollar on pensions and their adjustments	(0.39)
(e)	Net effect of changes in the value of the US dollar on the scales of pensionable remuneration	(0.87)
(f)	Effect of higher than expected number of new entrants	(0.04)
(g)	Effect of demographics and pensionable remuneration levels of future new entrants	1.09
(h)	Miscellaneous	(0.05)
	Change in imbalance	0.92

Comparative effect of alternative economic actuarial assumptions

28. In the table below, the required contribution rates under the two additional sets of economic assumptions, namely 6.5/8/6 and 6.5/10/6 (or real rates of return of 2 and 4 per cent, respectively), and on the "20-year participant growth assumption", are compared with that under the Regular Valuation:

Economic assumptions	Required contribution rate (percentage of pensionable remuneration)	Imbalance (excess over 23.7 per cent)
6.5/8/6	29.00	5.30
6.5/9/6	25.19	1.49
6.5/10/6	21.18	(2.52)

29. Both the Consulting Actuary and the Committee of Actuaries observed that it could be anticipated that investment earnings and inflation rates would change each year, resulting in real rates of return in particular years both above and below the 3 per cent actuarial assumption used in the Regular Valuation. Considering the long-term nature of the economic assumptions and taking into account all the other assumptions, they continued to believe that basing the Regular Valuation on a 3 per cent real rate of return remained reasonable. The Committee of Actuaries has indicated its intention to review this matter again next year. The results for real rates of return in-between the three rates examined (e.g. for rates of 2.5 or 3.5 per cent) can be estimated through interpolations of the results in the preceding table.

Present value of accrued benefits

30. As in previous reports, the actuarial valuation contained another indicator of the funded position of the Fund, namely, a comparison of the present assets of the Fund with the value of the accrued benefits on the valuation date (i.e. the benefits for retired participants and beneficiaries, as well as the benefits considered to have been earned by all present participants if their service had been terminated on 31 December 1993).

31. On such a "plan termination" basis, the Fund was in a strongly funded position with respect to its liabilities, if future adjustments of pensions were not taken into account. The funded ratios ranged from 128 to 143 per cent according to the assumed rate of interest, with 136 per cent being the funded ratio under the Regular Valuation. This meant that the Fund would have considerably more assets than needed to pay the pensions if no adjustments were made in pensions for changes in the cost of living. However, the funded position was considerably weaker when account was taken of the assumption that pensions in award would increase at the rate of 6 per cent per year; the funded ratios ranged from 71 to 90 per cent, with an 80 per cent funded ratio under the Regular Valuation. As shown in the table below, the funded ratios on the "plan termination" basis under the Regular Valuations have steadily improved since 1982, both with and without the assumption of future adjustments of pensions in award at the rate of 6 per cent a year.

Funded ratios 1982-1993

Valuation as at 31 December	If future pension payments are made: Without pension adjustments	With pension adjustments
1982	90%	49%
1984	100	56
1986	118	67
1988	123	70
1990	131	77
1993	136	81

Form of presentation of valuation results and additional disclosures

32. In resolution 47/203, the General Assembly requested the Board to "consider the form in which it presents the results of actuarial valuations, taking into account the views of the Committee of Actuaries and the Board of Auditors". That request was occasioned by statements made by several delegations in the Fifth Committee in 1992, requesting that the results of actuarial valuations of the Fund be presented in dollar terms. The External Auditors had earlier made a similar request, in which they also indicated that the reports on the valuation results should provide information on the net assets available for benefits, the changes in net assets, and an actuarial present value of promised retirement benefits. The auditors also indicated that any deficiency or imbalance in the Fund should be disclosed in the financial statements, including a breakdown of the contingent liability of each member organization of the Fund.

33. The Committee of Actuaries, at its meeting in June 1993, recalled that the practice of presenting valuation results in dollar terms had been discontinued after the 1980 valuation because of misunderstandings as regards the significance of the dollar results. The Committee reiterated its view that such misunderstandings would almost certainly recur if dollar results were again made widely available. While recognizing the growing calls for wider disclosure of the assets and liabilities of pension funds, the Committee expressed serious concerns over some of the observations and requests made by the External Auditors, especially those related to the request for determining the contingent liabilities of each of the member organizations of the Fund. It therefore suggested that its concerns, as well as those of the External Auditors, might best be pursued in joint discussions. The Board endorsed the views of the Committee of Actuaries and informed the Assembly that it would report further on the matter, in the light of the discussions with the auditors, to the Assembly at its forty-ninth session. 8/

34. In November 1993, the Chairman and Rapporteur of the Committee of Actuaries and the Secretary of the Pension Board met with the Technical Group of the Panel of External Auditors. This led to an exchange of correspondence between the Chairman of the Panel of External Auditors and the Chairman of the Pension Board, on the basis of which agreement was reached to place before the Pension Board the following requests made by the Panel of External Auditors:

> "(a) That the Pensions Board should provide, in its reports to the General Assembly and to the other member Organizations of the Fund, the results of the actuarial valuations of the Fund in dollar terms as well as in the form of percentages of pensionable remuneration;

"(b) That the Pensions Board, with the assistance of the Committee of Actuaries and Consulting Actuary, should provide an opinion as to the sufficiency of the assets to meet the liabilities under the Regulations of the Fund, taking into account the provisions of article 26 of those Regulations; and

"(c) That the Pensions Board would consult with the Board of Auditors to address the question of including in the Pension Board's report a st·tement by the Committee of Actuaries and the Consulting Actuary on the actuarial position of the Fund, to which the Board of Auditors may refer in their observations on the accounts of the Fund."

35. In resolution 48/225, the General Assembly took note "of the observations of the Panel of External Auditors, the Pension Board and the Committee of Actuaries, as well as the views of Member States, on the request made by the General Assembly in its resolution 47/203 ... and of the intention of the Board to report on this matter, following discussions with the Board of Auditors, to the Assembly at its forty-ninth session".

36. At a meeting in March 1994 between the United Nations Audit Operations Committee (AOC) and representatives of the Fund secretariat, the modalities for implementing the requested changes in the content and presentation of the results of the actuarial valuations of the Fund were discussed, including timing problems resulting from the fact that the Board of Auditors always meets before the Pension Board. Since the actual format for presenting the results, opinion and statements suggested by the Panel, as well as the necessary explanations related thereto, would not be considered by the Pension Board until its July 1994 session, the Secretary of the Board agreed to provide in June advance information to the Board of Auditors on the results of the actuarial valuation of the Fund as at 31 December 1993, together with the relevant extracts from the valuation report prepared by the Consulting Actuary and the report of the Committee of Actuaries. That advance information enabled the Board of Auditors to consider at its June 1994 session the opinions and statements prepared by the Consulting Actuary and the Committee of Actuaries on: (a) the actuarial sufficiency of the Fund as regards the liabilities under article 26 of the Regulations; and (b) the actuarial position of the Fund as at 31 December 1993.

37. The Committee of Actuaries informed the Board that, based on suggestions made by the Consulting Actuary, it had agreed on the form of presentation of the additional disclosures and statements suggested by the Panel of External Auditors. The Committee noted that, prior to 1982, valuation results had been presented in dollar terms. Therefore, while maintaining its concern that such dollar amounts may give rise to misunderstandings or misinterpretations, it agreed that, on balance, the preferred course of action would be to provide the information requested by the Auditors, together with explanations which would place the dollar amounts in their proper perspective. The actuarial valuation report therefore contained the results in dollar terms, both on the Regular Valuation basis and under the other two sets of economic assumptions. The two suggested statements on the sufficiency of the assets of the Fund were presented to the Board in the report of the Committee of Actuaries.

38. The Board agreed with the actions taken by the Secretary, the Consulting Actuary and the Committee of Actuaries to respond positively to the requests made by the Panel of External Auditors. In paragraphs 39 to 42 below, the results of the actuarial valuation are presented in dollar terms, together with explanations which place the dollar amounts in proper perspective. The Board also agreed to include in this report the statements presented by the Committee

of Actuaries on: (a) the actuarial sufficiency as at 31 December 1993 of the Fund to meet its liabilities under article 26 of its Regulations; and (b) on the actuarial position of the Fund as at 31 December 1993 (see annexes IV and V below, respectively).

Results of the valuation in dollar terms

39. The table below summarizes the valuation results as at 31 December 1993, both as a percentage of pensionable remuneration and in dollar terms, under the three sets of economic assumptions, with the "20-year participant growth assumption".

	VALUATION RESULTS SURPLUS (DEFICIT)	
Economic assumptions	As percentage of pensionable remuneration	In dollar terms (in millions)
6.5/8/6	(5.30)	($10 917.3)
6.5/9/6 (Regular Valuation)	(1.49)	($1 857.1)
6.5/10/6	2.52	$2 258.3

40. The table below provides the projected liabilities and assets of the Fund in dollar terms, as reflected in the Regular Valuation results as at 31 December 1993 and 31 December 1990, respectively.

	(Millions of US dollars)	
	31 December 1993	31 December 1990
Liabilities		
Present value of benefits:		
Payable to or on behalf of retired and deceased participants	7 554.3	6 362.3
Expected to become payable on behalf of active and inactive participants, including future new entrants	35 324.5	29 752.9
Total liabilities	42 878.8	36 115.2
Assets		
Actuarial asset value	11 740.3	8 898.8
Present value of future contributions	29 281.4	26 575.4
Total assets	41 021.7	35 474.2
Surplus (deficit)	(1 857.1)	(641.0)

41. Both the Consulting Actuary and the Committee of Actuaries stressed that great care must be taken when considering the dollar amounts. The liabilities shown in the table above included those for individuals who have yet to join the Fund; similarly, the assets included the contributions for future new entrants.

The imbalance did not indicate a shortfall in the Fund's ability to meet current obligations, rather it indicated the future effect of continuing the current contribution rate under various actuarial assumptions as to future economic and demographic developments. The valuation results were therefore highly dependent upon the actuarial assumptions used. As shown in the table in paragraph 40 above, a significant surplus, rather than a deficit, was indicated on the 6.5/10/6 valuation basis, i.e. a real rate of return of 4 per cent. Both the Consulting Actuary and the Committee of Actuaries pointed out that the actuarial imbalance, when expressed in dollar terms, should only be considered in relation to the magnitude of the liabilities and not in absolute terms. The deficit of $1,857.1 million under the Regular Valuation as at 31 December 1993 represented only 4.3 per cent of the projected liabilities of the Fund.

42. Hypothetical models of the estimated progress of the Fund over the next 30 years were also prepared on the basis of the economic assumptions in the Regular Valuation, using the two sets of future participant growth assumptions, i.e., the "20-year" and the "5-15-year" participant growth assumptions. These models showed that the Fund balance at the end of the 30-year period would still be increasing in dollar terms, with the levels of the Fund balance ranging from $101 billion using the "20-year participant growth assumption" to $103 billion using the "5-15-year participant growth assumption." Additional models, in which the assumed rate of return on investments ranged from 1 per cent to 5 per cent higher than the assumed 6 per cent rate of inflation, were also prepared. These models showed that the Fund balance would continue to increase at the end of 30 years in all cases, with the balances ranging from $40 billion to $213 billion.

Views of the Committee of Actuaries

43. In its assessment of the results of the valuation, the Committee of Actuaries specifically addressed four important indicators, and noted the following:

(a) The actuarial value of the assets used as the starting-point in the valuation ($11,740.3 million), determined according to the five-year moving average method, was approximately $1,062 million, or 8.3 per cent, lower than the market value of the assets as at 31 December 1993 ($12,802.3 million);

(b) The average of the real rates of return of the investments over the last 10 years has been considerably greater than the 3 per cent real return assumption used in the Regular Valuation, with the average annual real rate of return over the last 34 years having reached 3.5 per cent;

(c) The funded ratios indicated that the Fund was in a strong funded position with respect to the accrued benefit entitlements as at 31 December 1993 under the Fund's Regulations (i.e. without taking into account pension adjustments), namely in excess of 128 per cent for all three sets of economic assumptions. Although the funded ratios were considerably lower when account was taken of the current assumptions as to annual pension adjustments, the trend since 1980 has continued to be one of improving funded ratios under all three sets of economic assumptions (reflecting 2, 3 and 4 per cent real rates of return);

(d) The lower than expected pensionable remuneration and the demographic composition of new entrants, which formed the basis for the future new entrant projections, were based on 1993 data and may not reflect the future trend. The 1993 pensionable remuneration levels in dollar terms for some new General

Service entrants reflected the impact of the appreciation of the dollar against a number of currencies. Moreover, the freezing of the gross pensionable salary at certain levels of the General Service scales at many locations, because of the introduction of lower staff assessment rates in 1992, may also have contributed to the lower than expected pensionable remuneration levels for General Service staff in 1993.

44. The Committee also noted that the projections of future annual contributions and benefit payments prepared by the Consulting Actuary under the 3 and 4 per cent real rate of return assumptions indicated that the assets would continue to increase in real terms for at least 30 years.

45. On the basis of its evaluation of the relevant indicators, the Committee of Actuaries expressed the opinion that there was "no need either to increase the current contribution rate or to take other measures to reduce the actuarial imbalance". It indicated its intention to review next year the experience data, including the incidence of early retirements and various aspects of the valuation methodology. The Committee indicated further that it would review the need for action at the time of the next scheduled valuation, as at 31 December 1995, in the light of the developments which will have taken place between now and then.

46. As regards the actuarial sufficiency of the Fund to meet its liabilities under the Regulations, the statement prepared by the Consulting Actuary and approved by the Committee of Actuaries, which is reproduced in annex IV, concluded as follows:

> "the actuarial value of the assets exceeds the actuarial value of all accrued benefit entitlements under the Fund, based on our understanding of the Regulations of the Fund in effect on the valuation date. Accordingly, there is no requirement, as at 31 December 1993, for deficiency payments under article 26 of the Regulations of the Fund."

47. In the statement on the actuarial position of the Fund as at 31 December 1993, reproduced in annex V below, the Committee of Actuaries and the Consulting Actuary concluded that:

> "Based on the results contained in the valuation report, and after consideration of further relevant indicators and calculations ... the present contribution rate of 23.7 per cent of pensionable remuneration could be maintained for funding purposes, pending a review at the time of the next valuation, as at 31 December 1995, and in the light of developments which will have taken place between now and then."

Discussions in the Board

48. During the discussions in the Board, the Consulting Actuary indicated that use of the actual market value of the assets on 31 December 1993 as the starting-point, rather than the assumed actuarial asset value determined by use of the five-year moving average method, would have resulted in a reduction of the imbalance by approximately 0.86 per cent of pensionable remuneration, and that use of a future real rate of return assumption of 3.5 per cent, instead of 3 per cent, would have reduced the imbalance further by approximately 2 per cent of pensionable remuneration. However, he stressed that it would not be appropriate to use the higher figures for the actuarial value of the assets and for the future real rate of return without examining the totality of the actuarial assumptions, since there were offsetting understatements in the

assumptions as regards the incidence of early retirements and there was no assumption as to the long-term costs of the two-track adjustment system.

49. As regards the continued appropriateness of the assumption of a 6 per cent annual rate of inflation, the Consulting Actuary indicated that this reflected anticipated inflation over many decades into the future, and therefore should not be assessed solely in relation to current levels of inflation. He observed that while consideration could be given to lowering the inflation assumption, perhaps to 5 per cent, if inflation rates continued to be modest, it should be borne in mind that the inflation assumption was only one of several interrelated economic assumptions, each of which would normally have to be adjusted in a consistent manner; a reduction of 1 or 2 per cent in the inflation assumption would affect the valuation results only slightly if the same reduction was made in the assumptions as regards future increases in pensionable remuneration and in the nominal investment return.

50. The Board sought clarification as to the reasons for the projected increase in the assets for at least the next 30 years, notwithstanding the actuarial imbalance of the Fund. The Consulting Actuary indicated that the valuation involved projections far into the future under the various actuarial assumptions and that the results for the next 30 years reflected the long-term nature of the projections. He noted that it was more appropriate to consider the inflation adjusted, or real projected assets, rather than the absolute values because the benefits paid by the Fund were indexed to inflation. He noted that the inflation adjusted projected assets would start to decline sooner than the absolute level of the assets, but not for at least 30 years, under both the 3 per cent and 4 per cent real return assumptions. The Consulting Actuary also noted that this was one of the positive indicators which had led the Committee of Actuaries to express the opinion that the current contribution rate need not be changed at the present time.

51. As to whether there should be cause for concern because the total amount of benefit payments was approaching the level of contributions to the Fund, the Consulting Actuary indicated that this was a natural result for a maturing Fund, and that the investment income should be more than sufficient to make up any shortfalls in the contributions.

52. The Consulting Actuary also provided detailed explanations of the various factors which had contributed to the increase in the imbalance, including in particular the use of the new mortality tables reflecting longer longevity, and the demographics and levels of pensionable remuneration of new entrants.

53. The Rapporteur of the Committee of Actuaries reiterated the intention of the Committee of Actuaries to review the economic assumptions, the methodology used to determine the actuarial value of the assets, the need for revised early retirement assumptions and the need to include an assumption as to the expected cost of the two-track adjustment system. Both the Consulting Actuary and the Rapporteur of the Committee of Actuaries expressed the view that the set of assumptions used in the Regular Valuation was appropriate, when all its elements were considered as a whole.

54. The Board took note of the results of the actuarial valuation of the Fund as at 31 December 1993 and the comments and explanations of the Consulting Actuary and the Rapporteur of the Committee of Actuaries. It noted in particular the conclusion of the Committee of Actuaries that there was no need to increase the current contribution rate or to take other measures at this time

to reduce the imbalance, pending a review of developments between now and the completion of the next valuation of the Fund as at 31 December 1995.

55. The Board also expressed satisfaction at the arrangements made with the External Auditors as regards the presentation of the results of the valuation in dollar terms, together with additional disclosures and opinions on the sufficiency of the assets of the Fund. The Board concurred with the view of both the Committee of Actuaries and the Consulting Actuary that great care should be taken in assessing the results of the valuation in dollar terms, so as not to create undue anxieties for participants and beneficiaries, as well as for Member States.

B. Membership of the Committee of Actuaries

56. The Committee of Actuaries consists of five members, one from each of the five geographical regions of the United Nations, appointed in accordance with article 9 of the Fund's Regulations by the Secretary-General, on the recommendation of the Board. The current membership of the Committee is set out in annex XII below.

57. Under the arrangements adopted by the Board in 1986 to stagger the membership of the Committee, the terms of two of the members are scheduled to expire on 31 December 1994:

Mr. A. O. Ogunshola (Nigeria) - Region I (African States)

Mr. L. J. Martin (United Kingdom) - Region V (Western European and other States)

58. The Board decided to recommend, and the Secretary-General has approved, the reappointment of Mr. A. O. Ogunshola and Mr. L. J. Martin for three years, from 1 January 1995 to 31 December 1997.

C. Interest rate applicable to lump-sum commutations of periodic benefits

59. In 1991, the Board reviewed and reported to the General Assembly 9/ on the interest (discount) rate applicable to lump-sum commutations under article 28 (g) of the Fund's Regulations, which had last been revised in 1985. At that time, the Board decided not to reduce the interest rate from 6.5 to 5.5 per cent, as had been proposed by the participants' representatives; it agreed, however, to review the rate on the occasion of the next actuarial valuation of the Fund. Accordingly, the Board re-examined, at its July 1994 session, the interest rate and the mortality table used to determine the lump-sum commutations, in the context of the assumptions used in, and the results of, the valuation of the Fund as at 31 December 1993.

60. Under article 28 (g) of the Regulations, upon separation a participant may commute up to one third of his/her retirement or early retirement benefit into an actuarially equivalent lump sum, subject to the following: (a) the lump sum may not be greater than the actuarial equivalent of one third of the benefit that would be payable to a participant retiring at the normal retirement age on the same date, after 35 years of contributory service, and with a final average remuneration equal to the pensionable remuneration at the top step of level P-5; and (b) if the amount of the participant's own contributions (including

interest) exceeds the actuarial equivalent of one third of the benefit, the lump-sum commutation may be equal to that larger amount.

61. The actuarial equivalent of a benefit is defined as the amount which, together with interest at the rate(s) established by the Board in accordance with the Regulations, would equal in current value the total of the periodic payments that the participant would receive during his/her expected lifetime.

62. In accordance with article 11 of the Regulations, the interest rate(s) and mortality tables used for calculating lump-sum commutations are adopted and revised, when appropriate, by the Board on the advice of the Committee of Actuaries. The interest rates and mortality tables currently used, and the periods of contributory service to which they relate, are as follows:

Period of contributory service	Interest rate (percentage)	Mortality table
Prior to 1/1/79	3.25	1960 UNJSPF Unisex table
1/1/79 - 31/12/82	4.0	" " " "
1/1/83 - 31/12/84	4.5	" " " "
1/1/85 to present	6.5	1984 UNJSPF Unisex table

63. In calculating lump-sum commutations, the Fund uses a "composite rate", based on averaging the interest rates and mortality rates which applied when the particular contributory service was performed; consequently, for participants with extensive prior service the interest rate actually applied has provided lump-sum amounts which were greater than those which would have resulted from application of a uniform rate of 6.5 or 6 per cent for all years of contributory service.

64. The Board reviewed information on the trends in recent years of interest rates in the United States and on the practices followed by some other pension schemes as regards lump-sum commutations. It noted that the pension plans of the International Bank for Reconstruction and Development (IBRD), the International Monetary Fund (IMF) and the Inter-American Development Bank (IDB) use a uniform 6 per cent interest rate for lump-sum commutations, a rate substantially higher than the assumed real rate of return of between 3 and 3.5 per cent used for those plans in recent years. The inflation factor assumed in those pension plans for cost-of-living adjustments of pensions in award has been 5 per cent. The 6 per cent interest rate for lump-sum commutations was adopted by those plans as a compromise, intended to be neither so high as to discourage participants from availing themselves of the commutation option, nor so low as to cause an actuarial loss. In setting the interest rate used by the three plans, account was taken of the potential additional costs involved when selections against the plans are made (i.e. the greater tendency to select a lump sum by those in poorer health) and in the "pre-payment" of the inflation adjustments reflected in the lump-sum amount.

65. The Consulting Actuary has estimated that, based on the actuarial valuation as at 31 December 1993, the current interest rates used for lump-sum commutations permit a reduction in the required rate of contributions of

1.79 per cent of pensionable remuneration, compared with the contribution rate that would be required if a uniform interest rate of 3 per cent were applied for future service. An increase or decrease in the current interest rate of 6.5 per cent would trigger a decrease or increase in the required rate of contributions by both participants and member organizations. On the basis of the 31 December 1993 actuarial valuation, the Consulting Actuary estimated the actuarial implications of possible higher and lower future interest rates as follows:

Change in interest rate for future contributory service from 6.5 per cent to	Increase (decrease) in required rate of contributions (as percentage of pensionable remuneration)
8	(.31)
7.5	(.22)
7	(.11)
6.5	0
6	.11
5.5	.25
5	.41
4.5	.55
4	.79
3.5	1.23
3	1.79

66. At its June 1994 meeting, the Committee of Actuaries reaffirmed the position it had taken repeatedly since 1986, namely:

> "that after the Board had decided many years ago to set the interest rate used for lump-sum commutations higher than the assumed real rate of return, the matter ceased being purely technical. The current rate of 6.5 per cent has produced an actuarial gain for the Fund".

The Committee noted the estimates prepared by the Consulting Actuary on the impact of possible increases or decreases in the interest rate on the required rate of contribution. It concluded:

> "Taking into account the results of the valuation of the Fund as at 31 December 1993, the Committee was of the view that the current interest rate of 6.5 per cent should be maintained. It cautioned against frequent changes in the interest rate, bearing in mind that a composite rate was applied which, because of the low interest rates in effect in earlier years, made the discount rate for staff with long contributory service considerably lower than the nominal 6.5 per cent rate."

67. During the discussions in the Board, the participants' representatives took the position that the current interest rate of 6.5 per cent was high, taking into account recent developments in the levels of interest rates and current market conditions. They noted that, since the 6.5 per cent rate was established in 1985, outside rates had decreased significantly. They also noted that many participants had to elect the lump-sum commutation option in order to meet the costs they would incur in relocating upon retirement. The use of an interest rate which was set higher than should be the case came at the expense of participants and provided substantial actuarial savings to the Fund, in the order of 1.79 per cent of pensionable remuneration, a level higher than the

current actuarial imbalance. Therefore, the current arrangements were highly punitive to staff. It was further noted that new mortality assumptions, reflecting increased longevity world wide, had been used in the actuarial valuation as at 31 December 1993, which had a large negative impact on the Fund's actuarial situation. Noting that IBRD, IMF and IDB had adopted an interest rate of 6 per cent for commutation purposes, also on an arbitrary basis, the participants' representatives proposed a lowering of the Fund's interest rate to 6 per cent, coupled with the use of a revised mortality table incorporating the longevity assumptions used in the latest actuarial valuation. They stressed that the provisions of the pension system should be applied in a manner that was fair and reasonable to participants; in their view, that standard was not met when lump-sum commutations were based on the use of excessively high interest rates and outdated mortality tables, both of which had a reductive effect on the amounts of lump-sum commutations.

68. The representatives of executive heads favoured retention of the current 6.5 per cent interest rate. However, they proposed that the Committee of Actuaries should present, for consideration and approval by the Standing Committee next year, an updated Unisex Mortality Table for commutation purposes, which would reflect the longevity assumptions used in the latest valuation.

69. Some representatives of governing bodies indicated that they wished to retain the current 6.5 per cent interest rate in order to safeguard the actuarial health of the Fund. That interest rate constituted part of a compromise reached in 1984 in Vienna, which went a long way in alleviating the serious actuarial imbalance of the Fund in the early 1980s. Although not established by any scientific or technical means, the 6.5 per cent interest rate was set with a clear purpose in mind and, therefore, could not be described as "arbitrary". It was also noted that, while the financial market conditions were not the only factors to be taken into account in establishing the interest rate used for lump-sum commutations, market interest rates had increased since the Board took the decision in 1991 to retain the current 6.5 per cent rate.

70. The Consulting Actuary and the Rapporteur of the Committee of Actuaries drew to the attention of the Board that there had been several changes in the mortality assumptions used in actuarial valuations since the 1984 Unisex Mortality Table had been adopted. It had not been the practice to revise the Unisex Mortality Table each time the mortality assumptions were changed for actuarial valuations. The Committee of Actuaries had not yet had the opportunity to construct an updated Unisex Mortality Table based on the recent changes in mortality rates, which could then be utilized for commutation purposes with respect to contributory service performed after adoption by the Board of the new Unisex Mortality Table. The Consulting Actuary estimated that a new Unisex Mortality Table for commutation purposes, as applied to future service, would increase the required contribution rate by about 0.10 per cent of pensionable remuneration.

71. Because of differences of views in the Board, the questions of the level of the interest rate and the implementation of a revised Unisex Mortality Table were referred to a "contact group", presided by the Chairman of the Board, to attempt to reach a consensus agreement on a package of four measures: (a) the interest rate and mortality table to be used in lump-sum commutations; (b) the maximum number of years of creditable contributory service (paras. 73 to 86 below); (c) the 120 per cent cap provision under the two-track pension adjustment system (paras. 166 to 190 below); and (d) the application to staff in the General Service and related categories of the 1 April 1992 modification of the pension adjustment system (paras. 202 to 212 below). As part of the

agreement that was eventually reached, the Board decided to retain the current 6.5 per cent interest rate, which would be reviewed again by the Standing Committee next year, and to request the Committee of Actuaries to develop at its next meeting in May/June 1995 a revised Unisex Mortality Table, based on the longevity assumptions utilized in the valuation as at 31 December 1993, for consideration and approval by the Standing Committee at its meeting next year. The Board also agreed to implement the revised Unisex Mortality Table in determining lump-sum commutations as of the first day of the month following the Standing Committee meeting, i.e. 1 July 1995.

72. The decisions taken by the Board in respect of each of the four items referred to the "contact group", together with their actuarial implications, are summarized in annex VI below.

D. Maximum number of years of creditable contributory service

73. In 1991, the Board reviewed and reported to the General Assembly, 10/ on the question of extending the maximum number of years of contributory service for determining pension benefits, currently 35, taking into account the difference in (a) the rates of accumulation applicable to participants who entered the Fund before 1 January 1983 and the rates for those who entered the Fund on or after that date; and (b) the normal retirement age for participants who entered the Fund before 1 January 1990 (i.e. age 60) and for those who entered afterwards (i.e. age 62).

74. On that occasion, the Committee of Actuaries had reiterated its long-held view that, in principle, every year of contributory service should be counted for benefit accrual purposes. It indicated further that the Board might wish to review the matter, with a view to establishing that all contributory service beyond 35 years would be counted for benefit purposes, at a rate of accumulation of 1 per cent per year. At the same time, the Committee had observed that, in determining the timing of such a change, the Board would have to take into account the results of the Fund's most recent actuarial valuations, as well as the cost implications of other changes that the Board would be recommending for approval by the General Assembly.

75. The Committee of Actuaries had also expressed the view that, should the Board decide to recommend an increase in the maximum number of years of creditable contributory service, the change should be implemented in a manner which would minimize the "notch" effect (i.e. that separations immediately before and immediately after the effective date of the change would result in significant differences in the pension entitlements of participants with otherwise identical service records). Taking into account the administrative complications and other potential problems that would be involved in adjusting retroactively the pension benefits for participants who had already separated with more than 35 years of service, the Committee had suggested that an increase in the maximum number of years of creditable contributory service should be phased in, by crediting only the periods of service performed by Fund participants after the effective date of the change. (For example, if the change were implemented on 1 April of a given year, a participant with 37 years of contributory service who retired on 31 December of that year would be credited with 35 years and 9 months of total contributory service.)

76. As the Board had been unable to arrive at a consensus in 1991, it had deferred the matter for reconsideration when the results of the next actuarial valuation were available. At its 1994 session, the Board again reviewed the

evolution of the rates of accumulation and of the maximum number of years of creditable contributory service, 11/ as well as updated information on the practices under other public service pension schemes. It also considered possible changes in the maximum number of years of creditable contributory service and/or the maximum benefit accumulation.

77. The current maximum of 35 years of creditable contributory service entered into effect on 1 January 1980; the maximum had been 30 years when the Fund was established in 1949 and had increased to 32 years on 1 January 1970. The current annual rates of benefit accumulation and the maximum benefit accumulation vary as follows:

	Rate of accumulation	Maximum accumulation*
A. Participants who entered the Fund before 1 January 1983	2 per cent for 30 years, 1 per cent for next 5 years	65 per cent, after 35 years
B. Participants who entered the Fund on or after 1 January 1983	1.5 per cent for first 5 years, 1.75 per cent for next 5 years, 2 per cent for next 25 years	66.25 per cent, after 35 years

* With the exception that arises when the ceiling on the maximum pension is reached under article 28 (d), which applies in effect to ungraded officials and participants at the Under-Secretary-General, Assistant Secretary-General or their equivalent levels. That ceiling amount of 60 per cent of their pensionable remuneration has the effect of not making creditable any contributory service beyond 30 years.

78. The Board examined the benefit accumulation provisions in other pension schemes. It noted that the Fund's current maximum benefit accumulation was lower than the maximum benefit accumulation in the pension schemes of the national civil services of five of the seven headquarters' countries (Austria, Canada, France, Italy and the United States) and of eight international organizations (World Bank, International Monetary Fund, Inter-American Development Bank, Asian Development Bank, Organization of American States, European Union, Organisation for Economic Cooperation and Development and European Organization for Nuclear Research).

79. It was difficult to make comparisons with the provisions on maximum benefit accumulation in the pension schemes of the national civil services of the other two headquarters' countries, i.e., Switzerland and the United Kingdom. The same was true for the Federal Employees Retirement System (FERS) of the United States, which applies to employees recruited after 1983. Under the United States Civil Service Retirement System (CSRS), applicable to employees recruited before 1984, the maximum benefit accumulation was 80 per cent, attained after 42 years of contributory service.

80. At its June 1994 meeting, the Committee of Actuaries reiterated its long-held view that, in principle, every year of contributory service should be counted for benefit accrual purposes. At the same time, the Committee indicated

that "whether and when to make a recommendation to the General Assembly to extend the current maximum was a judgement to be made by the Board, taking into account the Fund's actuarial situation and the costs or savings that would result from any other changes in the Regulations or in the Pension Adjustment System that it intended to recommend to the General Assembly". The Committee stressed that, if the maximum number of years of creditable contributory service were increased, care should be taken to avoid "notches" in the entitlements of participants separating shortly before and after the adoption of the change (see para. 75 above).

81. The Consulting Actuary estimated the actuarial cost of a prospective increase in the years of creditable contributory service from 35 to 40 years, with a rate of accumulation of 1 per cent per year for the years beyond 35, to be 0.06 per cent of pensionable remuneration.

82. There was broad support in the Board for the principle that, ideally, every year of contributory service should be counted for benefit accrual purposes. However, views differed on the scope and timing of any measure that might be recommended to the General Assembly for amending the provisions in the Regulations regarding the maximum years of creditable contributory service, namely articles 28 (b) and (c).

83. After extensive discussion, and as part of a package of four measures to be recommended to the General Assembly (see para. 71 above), the Board reached agreement on increasing the maximum number of years of creditable contributory service as follows:

(a) Years of contributory service beyond 35 should be made creditable, at an accumulation rate of 1 per cent per year;

(b) The maximum benefit accumulation rate under the Fund's Regulations should be set at 70 per cent;

(c) The implementation date should be 1 July 1995 and the method of implementation should be as recommended by the Committee of Actuaries, so as to avoid any "notch" effect.

84. The Board therefore decided to recommend to the General Assembly amendment of articles 28 (b) and (c) of the Regulations of the Fund which would increase the maximum number of years of creditable contributory service and the maximum benefit accumulation rate as indicated in paragraph 83 above. The text of the proposed amendment is contained in annex XIV below.

85. The Board requested the Secretary to prepare a study, for consideration by the Board at its 1996 session, on whether and, if so, when consequential changes should be made in any other articles in the Fund's Regulations.

86. A summary of the other three measures included in the "package" of agreements, and the actuarial costs (savings) thereof are summarized in annex VI below.

E. Transfer Agreements with the Asian Development Bank and the European Bank for Reconstruction and Development

87. The Board considered proposed texts of Transfer Agreements with the Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD), respectively. The texts had been negotiated by the Fund secretariat with the responsible officials in the ADB and EBRD secretariats. The Board's approval was required before submission of these transfer agreements to the General Assembly, for its concurrence under article 13 of the Fund's Regulations.

88. The Pension Fund has to date concluded 13 transfer agreements with international organizations and Governments, falling into two broad categories:

(a) "Inner circle" agreements, with two specialized agencies, the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF), and with one international organization that is not a specialized agency, the Inter-American Development Bank (IDB): they provide for recognition by the receiving party, on a one-to-one basis, of the participant's own contributory service, pensionable remuneration and contributions, upon transfer to the receiving pension plan of either 21 per cent of the participant's final average remuneration multiplied by the number of years of contributory service (IBRD and IMF) or three times the participant's own contributions (IDB);

(b) "Outer circle" agreements, with five international organizations that are not specialized agencies and five with Governments of Member States: they provide for the transfer of the actuarial equivalent value of a participant's accrued pension benefits, for which the participant receives certain contributory service or other pension credits in the receiving plan, according to the latter's provisions.

89. The proposed agreements with ADB and EBRD were of the "outer circle" type and therefore provided for the transfer of the actuarial equivalent value of a participant's accrued pension benefits. They followed closely the model of earlier agreements of the same type and their terms have been approved by the competent organs of ADB and EBRD. The sole substantive difference between earlier agreements and the proposed agreement with EBRD related to the Bank's having two retirement plans: a Final Salary Retirement Plan (a defined benefits plan, based on final salary, financed with contributions by the Bank alone) and a Money Purchase Plan (a defined contributions plan, with equal contributions by the employer and employee). Only the Final Salary Retirement Plan was covered by the proposed Transfer Agreement. This approach, advocated by EBRD and followed in a recent Transfer Agreement concluded between IBRD and EBRD, was based on the rationale that the EBRD Money Purchase Plan was more a savings plan than a true retirement scheme. A representative from EBRD provided the Board with clarifications on various points of detail related to the Bank's pension plans.

90. The Committee of Actuaries had considered the proposed two transfer agreements and "had no difficulty with their terms".

91. With respect to the proposed agreement with EBRD, some members of the Board representing participants expressed concern with the lack of reciprocity in the transfers between the two pension plans. Under the proposed text and the administrative implementation contemplated by EBRD, upon electing to transfer, a UNJSPF participant taking up employment with EBRD would receive credits divided

equitably between the two plans of the Bank. A transferee in the other direction, however, would receive credit in the Fund only with respect to the amount of the entitlement from the Final Salary Retirement Plan of EBRD. The view was expressed that such an arrangement might not be advantageous to UNJSPF participants and that, therefore, it was essential to provide appropriate and complete information to UNJSPF participants considering the exercise of their right to transfer under the agreement before such election became effective.

92. Some members of the Board representing the executive heads and the governing bodies stated that transfer agreements were generally advantageous to UNJSPF participants, in that they offered them an additional option and facilitated job mobility. It was also noted that such agreements provided an option that was not available to large numbers of staff members, who upon leaving the United Nations system became employed by an entity with which the Fund had not concluded a transfer agreement. Several members representing governing bodies stated that it was not the role of UNJSPF and the Board to evaluate the benefit package of other pension plans in the context of negotiating transfer agreements. They emphasized that it was for each individual to decide whether or not to exercise the option to take advantage of the Fund's Transfer Agreements.

93. The Board approved the proposed Transfer Agreement with ADB, for submission to the General Assembly at its forty-ninth session. The date proposed for the Agreement to enter into force was 1 January 1995. Following informal consultations, the Board also approved the proposed Transfer Agreement with EBRD on the understanding that, before its implementation on 1 January 1995, the Secretary would reach agreement with EBRD on the Rules of Administration and Procedures envisaged under article V of the Agreement, which would include provisions to permit UNJSPF participants transferring to EBRD to have more than 50 per cent of the actuarial equivalent of their entitlements credited in the Final Salary Retirement Plan of EBRD. Arrangements would also be made to provide complete details of all aspects of the proposed transfer and the consequences thereof to potential transferees before their election to transfer became final.

94. The Board also requested that the Committee of Actuaries prepare, for submission to the next session of the Board, a note setting out the purpose and operation of the Fund's Transfer Agreements, including information on the methodology for the calculation of actuarial equivalents, as well as a comparison between the situations of Fund participants who can avail themselves of transfer agreements and those of participants who do not have that option when leaving the Fund.

95. In accordance with the requirement in article 13 of the Regulations of the Fund, the Board requests the concurrence of the General Assembly for the approval of the proposed Transfer Agreements with ADB and EBRD, as set out in annex VII below.

IV. INVESTMENTS OF THE FUND

A. Management of the investments

96. The Board reviewed the investments of the Fund on the basis of a report and accompanying statistical data presented by the representative of the Secretary-General. The report described the economic and investment environment, the strategic and tactical methods applied in determining the investments, and provided information on the investment returns during the year ended 31 March 1994. As requested by the Board at its forty-fifth session (special), the representative of the Secretary-General also provided a separate report on the custodial arrangements for the investments of the Fund.

Investment performance

97. During the year under review, economic activities continued to improve world wide, but at different rates of growth. In the United States, Canada, the United Kingdom and Australia, the economies were in various stages of recovery; the Continental European and Japanese economies were still in recession but with improved growth rates; and the emerging economies continued to experience above average growth rates. Interest rates and inflation rates continued to decline during most of the period except in the United States, where short-term interest rates were increased during the first quarter of 1994; volatility in currency exchange rates continued; commodity prices remained low; oil and gold prices were relatively stable; in a number of countries, unemployment increased and financial markets remained volatile; and the restructuring of economic systems continued in some countries. In these circumstances, the management of the Fund maintained a cautious strategy in making investment decisions.

98. The market value of the assets of the Fund as at 31 March 1994 was $12,534 million, i.e. $1,127 million more than a year earlier. The total return for the year was 9.7 per cent which, after adjustment by the United States consumer price index, represented a "real" rate of return of 7.0 per cent. This was the twelfth consecutive year in which the Fund had achieved a positive return. The rates of return were calculated by an outside consultant using a generally accepted method for such calculations, which included actual income from interest and dividend payments, realized and unrealized capital gains and losses, changes in the market value and timing of cash flow. The annual total returns over the past five years had been as follows:

Year ended 31 March	Percentage return
1994	9.7
1993	11.6
1992	7.6
1991	8.9
1990	11.6

99. The representative of the Secretary-General stressed that short-term investment results had little meaning for the Fund in view of its long-term needs and investment objectives. They were largely influenced by the volatility of security markets, which are difficult to predict and impossible to control. Investment returns are likely to fluctuate from year to year and could, at times, be negative. The management of the Fund was geared to maintaining a careful balance between risk and reward expectations over the medium to long

term, rather than taking the risk inherent in seeking very high short-term results.

100. The cumulative annualized total returns over the last 25 years had averaged 9.4 per cent. They were somewhat higher in more recent five-year periods: 9.9 per cent, 12.8 per cent, 12.1 per cent and 10.8 per cent during the last 5, 10, 15 and 20 years, respectively. Over the 34-year period for which data was available, the cumulative annualized total rate of return was 8.6 per cent, representing a yearly inflation-adjusted or "real" return of 3.5 per cent.

101. The structure of the portfolio continued to be widely diversified to reduce risk and improve long-term returns. The representative of the Secretary-General noted that the major factor which determined the total return was asset allocation, i.e. the distribution of investment funds among stocks, bonds, real estate-related investments and cash. The second factor concerned the markets in which the funds were invested and their weightings in the portfolio; the third factor related to the individual securities. The total return in terms of the base currency, the United States dollar, would be affected by the movement of other currencies against the dollar.

102. Equities had outperformed the other asset classes over the 34-year period to March 1994. However, for 13 of those 34 years, bonds had outperformed equities, including 5 years during the last decade. Real estate-related investments, which have been included in the portfolio since 1972, have had positive returns in all but 3 years. Short-term investments and reserves had posted double-digit returns in 9 of the 24 years for which investment returns have been calculated for this asset category. Although the data would seem to indicate that all of the Fund's assets should be invested in equities, the representative of the Secretary-General pointed out that other considerations, such as level of risk, generation of income and the preservation of the principal of the Fund, entered into investment decisions. During periods of high interest rates, the Fund benefited from increased income from investments in fixed-income securities, which was a major component of total return. The income earned by the Fund from fixed income and real estate assets had increased from $268 million in 1985 to $553 million in 1993, an increase of 106 per cent. In a low interest rate environment, however, equities tended to perform better than fixed income securities. Over a longer period, diversification tended to smooth and enhance investment return.

103. As regards geographic and currency diversification, the Fund was unique among major pension funds in its commitment to global investment. Funds were invested in 41 countries, including direct investment in 18 developing countries, and were invested in 27 different currencies. At 31 March 1994, $7,104 million, or 56.7 per cent, of the Fund's investments were in currencies other than the United States dollar.

104. The Secretary-General, on the recommendation of the Investments Committee, had established asset allocation ranges to be used as guidelines during the year. These guidelines were reviewed by the Investments Committee four times a year during its regular meetings and, if necessary, the Committee recommended adjustments based on market conditions. The composition of the portfolio, therefore, reflected the judgement of the Investments Committee, the staff and the advisers, based on the prevailing economic, market and currency trends. During the year under review, the proportion of the Fund invested in equities had increased from 53 to 55 per cent; the proportion of holdings of bonds and of real estate investments decreased, from 37 to 33 per cent and from 7 to 6 per cent, respectively; the proportion of short-term investments and reserves

increased from 3 to 6 per cent. All investments, at the time of purchase or sale, were reviewed and analysed by the staff and were required to meet the four criteria of safety, profitability, liquidity and convertibility, which had been endorsed by the Board and confirmed by the General Assembly.

105. Investments in developing countries were continuously reviewed, bearing in mind the guidelines and resolutions adopted by the General Assembly on this matter. Direct and indirect investments in developing countries, at cost on 31 March 1994, have decreased by 3 per cent since 1 April 1993. During the year ended 31 March 1994, the market value of the development-related assets increased by 4 per cent over the year. Development-related investments, at book value, accounted for 15.6 per cent of the Fund's assets. The Secretary-General, through the Investment Management Service, continued to search for investment opportunities in developing countries during the year under review. These efforts included missions to developing countries in Africa, Latin America, the Middle East and Asia.

Custodial arrangements

106. As indicated in paragraph 96 above, at the request of the Board, the representative of the Secretary-General submitted a separate report on custodial arrangements. In its review last year of the Board's budget proposals for investment costs for the biennium 1994-1995, the Advisory Committee on Administrative and Budgetary Questions (ACABQ) noted that a change in the custodial arrangements was being pursued which would result in a significant reduction in the combined advisory and custodial fees for the 1994-1995 biennium, estimated at that time to be $2.5 million, owing both to a new custody structure expected to be implemented by mid-1994 and to more favourable rates due to greater competitiveness among the providers of custodial services. The Advisory Committee requested the Board to provide in the report of the Board to the General Assembly a summary of the report of the Secretary-General on custodial arrangements and the Board's comments thereon. ACABQ indicated that the report should address "not only the cost-effectiveness of the new arrangement but all other related aspects, including legal and security issues". 12/

107. From the inception of the Fund in 1946 until 1989, it had a single contract, renewed from time to time, with the Fiduciary Trust Company International (FTCI), covering both advisory and custodial services. While FTCI provided advisory services directly, it had subcontracted global custodial services to Williams and Glyns, which subsequently merged with the Royal Bank of Scotland (RBS). RBS in turn contracted with local sub-custodians around the world. After consultation with the Investments Committee and with the assistance of the United Nations Office of Legal Affairs, the services of outside legal counsel were retained to advise on the continued suitability of this custodial arrangement. The key recommendations of the outside legal counsel were that: (a) to ensure the safety of the assets, the custodial arrangements should be diversified and should involve more than one custodian; and (b) the Fund's assets must be held in the name of the United Nations for UNJSPF and held separately from the assets of the United Nations, the custodian and all of its other clients.

108. Under the initial plan to implement the recommendations of the outside legal counsel, it was envisaged that the Fund would enter into direct contractual relationships with a world wide network of custodians, with the intention of having one custodian in every market where the Fund held significant assets. To minimize disruption of the investment operations of the

Fund, a transitional arrangement was made with FTCI, whereby FTCI would utilize its sub-custodians during the period of the setting up of the United Nations network of custodians. As a result, in 1989 two separate contracts were signed with FTCI, one for advisory and the other for custodial services. The objective was for FTCI to establish its own network of sub-custodians, with the United Nations at a later stage establishing and administering a network of custodians. The project however turned out to be more time-consuming than expected, largely because the requirements regarding the registration and segregation of the assets proved to be more complex than anticipated. The legal requirements with regard to custody differed from country to country. The contract with FTCI therefore had to be extended twice. During this time, the United Nations retained the services of an industry specialist to consider more fully various options relating to the custodial arrangements. This study resulted in a revised plan which called for direct relationships with a limited number of regional custodians, rather than with many local custodians. In addition, a Master Record Keeper would consolidate all data and perform accounting and record-keeping functions.

109. In his report, the representative of the Secretary General stated that, under the revised plan, "the Fund would benefit from a substantial reduction of risk in the following areas:

(a) Counterparty risk: The use of multiple custodians, all of whom are based in well developed markets, ensures that counterparty risk is diversified. The number of counterparties, as well as the fact that the option allows for easy extension into relationships with new counterparties, means that it is always likely to be able to provide the level of risk diversification that the Fund would require. The quality of counterparties involved, and the fact that there is no need to operate directly in markets where adequate counterparties do not exist, provide additional opportunity for risk reduction.

(b) Legal risk: Although there are some legal risks due to the need to contractually bind counterparties outside of the United States, the markets in which direct links will be established are well developed and the custody business is mature, therefore, these risks are very modest. Additionally, by contracting directly with multiple custodians, as compared to the sub-custody network of a global custodian, securities registration requirements (i.e. in the name of the United Nations) can be more easily met.

(c) Operational risk: The existence of prudent settlement and safekeeping procedures can be more easily monitored in this arrangement. Since the Fund will have direct contact with custodians, procedural as well as financial audits can be contractually guaranteed.

(d) Internal control: The Fund would gain considerable internal control over the quality of the services it receives as well as over parts of the investment process. By contracting directly with custodians the Fund enhances the flow of information and monitoring process by cutting out one entire level of filtering, the global custodian, making custody operations more transparent. Additionally, the level of filtering is replaced by an added level of monitoring and verification in the record-keeping function."

110. The need for implementation of the proposed new custody arrangement, which will greatly enhance risk reduction, was stressed in the Management letter of the external auditors of the Fund dated 29 January 1993:

"Examination of the investment records and documents on the custody of the UNJSPF securities disclosed that the FTCI is the sole custodian of all the securities of the Fund. It appears risky to us that one company should have custody of all the securities of the Fund and also be Adviser for all the Fund's transactions and operations including the maintenance of the books and records of the activities of the Fund.

"We recommend that the process of change should be accelerated and that both human and material resources be mobilized to expedite the implementation of the proposed plan by the expiry date of the present contract [with FTCI] in 1994 in order to assure adequate protection for the resources of the Fund."

111. The report of the representative of the Secretary-General concluded that:

"The Fund will benefit from the new custody arrangements through realization of improved internal control as well as reduced counterparty risk, legal risk and operational risk. As the Fund continues to grow, a structure will be in place that will ensure efficient and safe investment management and operations activities."

112. The new custody arrangements are anticipated to result in savings of about $3 million per annum. However, since the estimated custody costs are determined by changing parameters (the market value of the Fund and the volume of transactions), the absolute amounts will change over the years.

113. The representative of the Secretary-General assured the Board that the new custodial arrangements offered the Fund better protection, that is, lower risk, at a substantially reduced annual cost of some $3 million. Moreover, assurance was given that the diversified arrangements would not adversely impact on the levels of overall control and efficiency in the investment operations.

114. At the time of its session, the Board was advised that contracts had been entered into with the Master Record Keeper and the regional custodian for assets in the Americas. Since then contracts had been signed with custodians for all other assets except for those in Japan. The assets would be progressively transferred to the care of the new custodians.

Discussions in the Board

115. The Board welcomed the new representative of the Secretary-General for the investments of the Fund, Mr. Joseph E. Connor, and expressed appreciation for his comprehensive reports on the management of the investments and on the custodial arrangements. It also expressed appreciation to the Chairman and members of the Investments Committee, the staff of the Investment Management Service and of Fiduciary Trust Company International, for the good investment performance over the years.

116. During the discussions on the investment performance, members of the Board posed questions and made comments on a wide range of investment matters, including, in particular: the negative returns on United States equities during the year under review; the use of the United States consumer price index in determining the real rate of investment return; the potential impact on the Fund's investments of the lifting of sanctions on South Africa; real estate investments; and the establishment of a basis for assessing the investment performance of the United Nations Joint Staff Pension Fund in relation to that of other pension funds (e.g. the World Bank) or benchmark indicators.

117. As regards the negative return of 2.7 per cent on United States equities, compared with the 24.4 per cent return for equities outside the United States during the year ended 31 March 1994, it was explained that, notwithstanding the improved economic environment in the United States, the equity market had suffered most of its loss in the first quarter of the year owing to an increase in short-term interest rates. Given the long-term objectives of the Fund, short-term fluctuations in returns were not uncommon and should not be a matter of undue concern. It was noted that the returns on United States equities had been good during previous years, exceeding the returns for equities outside the United States in the years 1989 to 1993. The results over the years have served to highlight the wisdom and necessity of diversification of investments, not only by asset type but also by geographical location, in order to protect the principal of the Fund and to maximize returns.

118. As regards the reason for using the United States consumer price index to compute the real rate of return for the Fund, a practice which has been followed for many years, it was explained that, since the market value of the Fund's assets and the investment income were determined in United States dollar terms, it was logical to use the United States consumer price index to compute the real rate of investment return.

119. The lifting of South African sanctions resulted in the reinclusion of a number of multinational companies in the approved list of companies available for investment of the Fund's assets. The Fund would now be able to invest in these companies and directly in stocks listed on the South Africa Stock Exchange and could participate in investment funds which invested in South African companies; previously, the Fund had been unable to invest in such companies and investment funds.

120. As regards real estate investments, the Board was advised that such investments tended to do well in times of high inflation and therefore were a good form of investment diversification since, for example, bonds did not do well during inflationary periods. However, as the world economic environment had been marked by low inflation in the last few years, the returns on real estate had not been attractive and exposure to that sector had been decreased. Over the long term, however, the real estate portfolio had shown good returns.

121. With respect to the determination of benchmarks against which the Fund's investment returns could be compared, it was explained that the Fund was rather unique in terms of its payment liabilities, the structure of its investment decision-making process and, in particular, certain restrictions on investment options; therefore, no comparison of the Fund's overall return with those of other funds would be totally satisfactory. Information was, however, regularly provided to the Board on the comparison of the Fund's investment returns for the different asset groups, as reflected in international indexes, e.g. for equities, comparisons were made against the Morgan Stanley Capital Index and, for fixed income returns, against the Salomon Brothers World Bond Index. A preliminary study had been made on a possible strategic benchmark exclusively for the Fund. A further study was recommended by the Investments Committee.

122. In the discussion of the new custodial arrangements, members of the Board requested additional information and asked questions concerning the impact of the changes on the advisory functions of the Investments Committee and FTCI, on the staffing implications for the Investment Management Service, on the role of brokers in the decision-making process and on the functions of the Master Record Keeper.

123. In response to questions, the Board was provided with detailed explanations by the Chief of the Investment Management Service on the various stages of the process which culminated in the new custodial arrangements, including the selection of the Master Record Keeper and the regional custodians. He also provided updated information on the contracts already concluded and those on the verge of completion with the new regional custodians. He assured the Board that the new arrangement would have no impact whatsoever on the flow of information required by the Investments Committee to discharge its advisory responsibilities to the Secretary-General, nor would it affect the advisory role of FTCI. The only change would be that the detailed accounting information on the investment holdings of the Fund would be provided in the future by the Master Record Keeper, rather than FTCI. As regards the investment decision-making process, some members of the Board suggested that there should be more than one investment adviser, and that the management of the investments should be entrusted to external investment managers who would be under the supervision of the Investment Management Service.

124. On the staffing implications, the Chief of the Investment Management Service indicated that there may well be a need for more staff but at a later date, after the completion of the new custody arrangements. Increases in staff should be expected as the Fund continues to grow.

125. The Board was informed that brokers would play the same role as before, providing research and executing purchases and sales transactions, but would not have an institutional role in either the investment advisory or custodial services.

126. During the extensive discussions of the custodial arrangements, a number of members of the Board expressed appreciation for the work of the current and previous representatives of the Secretary-General for the investments of the Fund, of the Chief and staff of the Investment Management Service and of the United Nations Office of Legal Affairs in bringing to fruition custodial arrangements which would enhance the security of the assets while achieving significant cost savings. In particular, the Board welcomed the successful conclusion of the persistent efforts to ensure that the Fund's assets would be in the name of the United Nations for UNJSPF, and held separately from the other assets of the United Nations and those held by custodians. The Board stressed that the primary custodial objective must always be the security of the assets. It commended the achievement of both enhanced security and reduced costs. At the same time, the Board emphasized the essential need to monitor closely the efficiency and effectiveness of the new arrangements and, accordingly, requested the representative of the Secretary-General to report further on the matter at the next regular session of the Board.

B. Membership and size of the Investments Committee

127. The Secretary-General, in accordance with article 20 of the Regulations of the Fund, conveyed to the Board the names of the three members of the Investments Committee, Messrs. Ahmed Abdullatif, Aloysio de Andrade Faria and Stanislaw Raczkowski, whom he intended to propose to the General Assembly at its forty-ninth session, after consultation with the Advisory Committee on Administrative and Budgetary Questions (ACABQ), for reappointment as members of the Committee. The Board noted the proposal of the Secretary-General.

128. Based on a note by the representative of the Secretary-General for the investments of the Fund, the Board considered the size and composition of the

Investments Committee, including a possible recommendation to the General Assembly for amending article 20 so as to increase its present membership of nine.

129. Article 19 (a) of the Fund's Regulations provides that:

> "The investment of the assets of the Fund shall be decided upon by the Secretary-General after consultation with an investments committee and in the light of observations and suggestions made from time to time by the Board on the investments policy."

Article 20 of the Regulations provides that:

> "The Investments Committee shall consist of nine members appointed by the Secretary-General after consultation with the Board and the Advisory Committee on Administrative and Budgetary Questions, subject to confirmation by the General Assembly."

130. The Committee, as originally constituted in 1947, consisted of three members; its membership was increased to six in 1960. At its twenty-first session, in 1976, the Board, after considering the wide geographical range of the Fund's investments, agreed that there was a need to increase the size of the Investments Committee. It therefore proposed to the General Assembly that article 20 be amended to increase the number of members from six to nine, recognizing that investment emphasis would vary from market to market and that optimum combinations of professional expertise might differ in changing economic conditions.

131. In his note the representative of the Secretary-General stated that:

> "While the composition of the Committee should broadly reflect the various geographical regions as defined by the United Nations for other purposes, sufficient flexibility should nevertheless be permitted to the Secretary-General in selecting the members to enable the Committee to respond most effectively to the Fund's needs at different times. The requirement of special expertise which had become more and more important in recent years with the expansion and broadening of the portfolio, indicated that provision for a somewhat larger Committee would provide the Secretary-General with a Committee which would reflect the concentration and diversification of the investments of the Fund."

132. The members of the Committee are appointed by the Secretary-General in their individual capacities, and each member serves for a renewable three-year term. The terms are staggered so that there are three appointments or reappointments each year. The current nine members are drawn from the following countries: Brazil, France, Germany, Ghana, Japan, Poland, Saudi Arabia, Switzerland and the United States of America.

133. In addition to the regular members of the Committee, the Secretary-General has regularly drawn upon the specialized investment expertise of other persons as necessary to advise him on the investments of the Fund. It has been the practice of the Secretary-General since 1974 to appoint one or two ad hoc members annually, each for a term of one year. At present, there are two ad hoc members, one from the United Kingdom of Great Britain and Northern Ireland and the other from the United States of America. In addition, Governor Nehru, a long-term member and Chairman of the Committee who retired years ago has been

designated, upon the recommendation of the Board, as member emeritus - a purely honorary designation. Governor Nehru has not attended any meeting since he retired. The membership of the Investments Committee, including the ad hoc members, is provided in annex XIII below.

134. The representative of the Secretary-General noted that some members of the Committee were appointed after having served as ad hoc members. While there was a difference in the procedure by which members and ad hoc members were appointed, in all other respects no distinction was made between them. Their participation at meetings was on a completely equal basis. Based on this past practice, it was indicated that the Secretary-General might recommend that the two current ad hoc members be appointed as full members if the request to increase the Committee were adopted. However, at this stage, no names were submitted.

135. The size of the assets of the Pension Fund has grown tremendously over the years. As at 31 March 1976, when the membership of the Committee was raised from six to nine, the assets of the Fund stood at $1.2 billion and were invested in 10 countries, 5 currencies and 4 asset classes; 400 securities were held and there were no significant investments in developing countries. As of 31 March 1994, the value of the assets of the Fund has grown to $12.5 billion. Not only has the size of the Fund grown, but so have the geographical and currency diversification of the assets of the Fund and the number of asset classes in which the Fund has investments. As at 31 March 1994, the Fund had investments in 41 countries, 28 currencies and 4 asset classes consisting of 37 industries, 1,020 companies/securities; the Fund had investments in 19 developing countries worth over $1 billion. The introduction of small capitalization accounts in 1991 has provided the Fund with a new area of diversification.

136. In view of the increasing size and diversification of the investments of the assets of the Fund, the complexity of the investment process, and the fact that the Secretary-General has been, since 1976, receiving advice from 11 members (9 regular and 2 ad hoc members), the representative of the Secretary-General proposed that the formal membership be increased from 9 to 11. He indicated that the arrangement for appointing ad hoc members would continue; however, should such an amendment of article 20 of the Regulations be approved, the Secretary-General would temporarily suspend further appointments of ad hoc members, at least until the financial implications had been reviewed and approved by the Board.

Discussions in the Board

137. In introducing his note to the Board, the representative of the Secretary-General indicated that, in his view, it was crucial to enlarge the size of the Investments Committee. This increase would provide the opportunity to include individuals with an additional range of investment specialisms and experience reflective of today's global market-place. The size of the Committee had not changed for almost 20 years, during which time there had occurred a manifold increase in the size, complexity, diversity and geographic spread in the Fund's investment holdings.

138. The Board noted that, in addition to the nine members of the Investments Committee, the Secretary-General had appointed two ad hoc members and, on the recommendation of the Board, a member emeritus (see para. 133 above). There was discussion on the role of the ad hoc members of the Committee, who, like other members, were appointed by the Secretary-General; the Board and General Assembly were informed of such appointments. It was noted that such appointments provided a degree of flexibility to the Secretary-General so as to ensure that a broader range of specialized investment advice was available when required; over the years, up to two ad hoc members had served on the Investments Committee at the same time. It was also noted that an additional means of re-evaluating and adjusting the composition of the Committee from time to time to meet evolving needs, would be to modify the established practice of almost automatically reappointing members of the Committee whose terms were expiring. In that connection, it was suggested that the ages of some members of the Committee might be taken into account in considering reappointment.

139. Clarifications were requested regarding the actual use of ad hoc members and the benefit derived therefrom with respect to specific areas of investment operations. Questions were raised with respect to the expected future utilization by the Secretary-General of ad hoc appointments to the Investments Committee if the Assembly were to approve a recommendation to increase the Committee's membership. Furthermore, some members of the Board suggested that, if the membership were increased, in order to facilitate staggering the terms of the members on an enlarged Investments Committee, a membership of 12 would be preferable to the proposed 11. This would also de-link the proposed enlargement from the situations of the two current ad hoc members.

140. Some members of the Board indicated that there was a need for more precision as to the intentions of the Secretary-General as regards future use of ad hoc appointments, should the membership of the Investments Committee be enlarged. It was noted that if the Committee's membership were increased to 11, as proposed, and the 2 current ad hoc members were appointed as regular members, there would be no change in the current range of expertise represented in the Committee. This would also imply that two members having the same nationality would serve on the Committee (see annex XIII below). The members representing the General Assembly cautioned against underestimating the sensitivity of seeking General Assembly confirmation of an appointment to the Investments Committee, which would result in there being two members of the same nationality. Some other members voiced concern that this could further increase the risk of politicizing the selection process, with the possibility of more emphasis being placed on geographical requirements than on investment competence and needs.

141. It was suggested by some members that a more extensive study of the size and composition of the Committee was required, including: (a) the future role of the Committee; (b) the additional expertise and knowledge required by the Committee for specific types and areas of investment; and (c) the possibility of expanding the text of article 20 to address the modalities and criteria for appointing the members of the Committee.

142. There was extensive discussion of the question whether nationality should play any role in making appointments to the Investments Committee, including the

possibility of having on the Committee more than one member of the same nationality.

143. The representative of the Secretary-General for the Fund's investments stated that he had carefully considered the views of members of the Board, including those referred to in paragraph 140 above, and believed that these views could be accommodated by the Board if it accepted that, in principle, it could agree to an increase in the size of the Investments Committee, whether it be to 11 or to 12 members, without making any recommendation at this stage on the nominees for the additional seats. However, taking into account the views expressed in the Board, even if the enlargement were approved, the Secretary-General would agree not to take a decision to appoint new members to the larger Committee without further consultation with the Board or its Standing Committee. The representative requested the concurrence of the Board with that suggestion. In the meantime, the only action that would be taken by the Secretary-General would be to reappoint the three members of the Committee whose terms were expiring, which proposed action had been noted by the Board.

144. The Board reaffirmed its view that the primary objective in making appointments to the Investments Committee should be to ensure a high level of investment expertise in the Committee, taking into account the global investment policy of the Fund and the major areas of the investment decision-making process, overall asset allocation and strategy, the selection of companies and securities in which the Fund should invest and the timing of investments.

145. The Board also concluded that a recommendation to the General Assembly to amend article 20 of the Regulations to enlarge the size of the Investments Committee should be deferred, since at this time there was no consensus on enlargement of the Investments Committee and a number of Board members were not convinced that the current situation required urgent change. However, the Board indicated its readiness to review the matter at its next session, on the basis of any additional information on the matters mentioned in paragraphs 139 to 142 above, should the Representative of the Secretary-General so request.

V. FINANCIAL STATEMENTS OF THE FUND AND REPORT OF THE BOARD OF AUDITORS

146. The Board examined and approved the financial statements and related data on the operations of the Fund for the year ended 31 December 1993, submitted by the Secretary for inclusion in the report of the Board to the General Assembly and to the member organizations.

147. The Secretary informed the Board that the advance text of the audit opinion and the report of the Board of Auditors had been provisionally adopted at the forty-eighth regular session of the Board of Auditors, held from 28 to 30 June 1994, pending receipt of any comments from the Pension Board on the presentation of the results of actuarial valuations of the Fund. After receiving the relevant extract from the sessional report of the Pension Board, the report of the Board of Auditors in its final form was transmitted to the Secretary; no changes were made in the advance text which had been submitted to the Board.

148. The Secretary requested guidance from the Board in respect of three areas of the report of the Board of Auditors, reproduced in annex III below:
(a) presentation of the results of the actuarial valuations (paras. 16 to 27);
(b) internal audits of the Fund's operations (paras. 61 to 64); and
(c) arrangements for more intensive monitoring of continuing eligibility for widows' and widowers' benefits (paras. 30 to 41).

149. As indicated earlier, while some members of the Board expressed concern about possible misinterpretations if a single dollar amount were to be cited in the presentation of the actuarial imbalance of the Fund, the Board agreed to include in its report to the General Assembly the dollar amounts and the statements on the valuation results which had been recommended by the Committee of Actuaries (see paras. 36 to 41, and para. 55 above, as well as annexes IV and V below). The Board also endorsed the procedure followed by the Secretary this year, namely to provide to the Board of Auditors advance copies of the results of the actuarial valuation, together with the comments of the Committee of Actuaries thereon, since the audits of the Fund and the meetings of the Board of Auditors took place before the sessions of the Pension Board (see para. 38 above).

150. As regards internal audits of the Fund, a number of members concurred with the observation of the Board of Auditors that the Fund's operations, because of their complexity and scope, required regular internal audits, in addition to the audits performed annually by the External Auditors. They noted that the role of external auditors was distinct from that of internal auditors; internal audits constituted a valuable management tool and therefore should be carried out on a regular basis. While some members believed that the Fund would benefit most from internal audits carried out within the context of the establishment of an internal audit section in the Fund secretariat, whose staff would have obtained a good knowledge of the Fund's operations, others considered that this option required further study, including its cost implications. It was agreed that, for the time being, the use of the internal audit services of the United Nations should be explored, notwithstanding the inter-agency nature of the Fund and its operations. It was, however, stressed that the results of any internal audits, whether carried out by the United Nations or any other entity, should be communicated to the Pension Board through its Secretary and not otherwise distributed. The sole exception related to audits of the Investment Management

Service, which performed a function delegated to the Secretary-General under the Regulations of the Fund.

151. The Board requested the Secretary to pursue this matter with the newly created Office of Internal Oversight Services in the United Nations to ascertain whether administrative arrangements could be made to extend the services of that office to the Fund secretariat on a regular basis, and to report to the Standing Committee next year as regards the financial implications for the proposed 1996-1997 biennium budget and to the Board at its next regular session in 1996.

152. As regards the observations made by the Board of Auditors in respect of overpayments, several members recognized the inherent difficulties involved in monitoring the continued eligibility of more than 25,000 beneficiaries residing in more than 160 countries. Suggestions were advanced concerning the possibility of monitoring a limited number of beneficiaries each year using statistical sampling techniques; it was also suggested that officials in local field offices or retiree associations could be used to confirm the continued eligibility of the sampled beneficiaries.

153. The Board of Auditors had recommended that the present procedures for verifying the Certificates of Entitlement of widows and widowers, to determine their continuing eligibility for the survivors' benefits in payment, be improved. In this connection, the Auditors had stated that:

> "to serve as a deterrent, consideration should be given to the need to request widows/widowers to submit every two years notarized affidavits to the effect that they have not remarried."

The overpayment case which motivated this recommendation is described in paragraphs 30 to 32 of the report of the Board of Auditors; a summary of the response of the Secretary is contained in paragraph 39 of that report. The Board was apprised of the detailed observations made by the Secretary on this matter.

154. The Board did not endorse the suggestion made by the Board of Auditors that widows and widowers be required to submit to the Fund notarized certificates that they had not remarried, as that was not seen as a useful, reliable or cost-effective solution to avoiding fraud. It requested the Secretary to continue to explore new technologies and procedures aimed at strengthening the verification process, taking into account current resources available for this purpose.

155. The Board took note of the report of the Board of Auditors on the accounts of the Fund for the year ended 31 December 1993.

VI. PENSION ADJUSTMENT SYSTEM

A. Introduction

156. Pursuant to section IV of resolution 46/192 of 20 December 1991, the Board considered at its regular session in 1992 a number of studies on the operation of the pension adjustment system, in the light of the longer-term modification of the system approved by the General Assembly in the same resolution, and reported thereon to the General Assembly at its forty-seventh session. 13/ Under that modification, which currently applies to participants in the Professional and higher categories separating on or after 1 April 1992 who submit proof of residence in a high-cost country (i.e. higher than in New York), greater compensation is provided for cost-of-living differences in deriving the initial local currency pension from the dollar pension entitlement determined under the Regulations of the Fund.

157. As part of its consensus agreement to recommend the longer-term modification, the Board had informed the General Assembly in 1991 14/ of its intention to: (a) monitor the actual costs of the modification over time, on the occasion of actuarial valuations of the Fund, so as to assess the need for, and the timing of, possible changes in the contribution rate; and (b) to consider studies on:

(i) A possible change of the "120 per cent cap" provision under the two-track pension adjustment system;

(ii) The special index for pensioners;

(iii) The application of the modification to staff in the General Service and related categories, taking into account developments arising from the comprehensive review of the pensionable remuneration and consequent pensions of such staff.

158. Following preliminary consideration of these matters at its 1992 session, the Board decided to defer making any recommendations, pending a further review at its 1994 session. The Board also agreed at that time to consider in 1994 the periodicity of adjustments of pensions in countries with high inflation rates. In addition to these matters, the Board also considered at its 1994 session variations of pensions according to different dates of separation, in response to a request from the Federation of Associations of Former International Civil Servants (FAFICS) and to representations made by the Association for Former International Civil Servants in Argentina (AFICS/Buenos Aires).

B. Monitoring of the costs of the longer-term modification of the pension adjustment system which entered into effect on 1 April 1992

159. In its report to the General Assembly in 1991, 15/ the Board indicated that the Consulting Actuary had estimated the cost of the longer-term modification of the pension adjustment system that it was recommending "to be in the order of 0.3 per cent of pensionable remuneration". That estimate was derived from an extrapolation of the estimated costs of two of the possible modifications that the Board had considered over the preceding two years. The modification eventually recommended by the Board, and adopted by the General Assembly, reflected a compromise between those two possibilities.

160. In section IV of resolution 46/192, the General Assembly endorsed the view of the Advisory Committee on Administrative and Budgetary Questions that:

> "the Board should, on the basis of experience with the actual costs, determine whether any fine-tuning of the modification is warranted in order to limit the costs and that the guidelines set forth in General Assembly resolution 31/196 of 22 December 1976 should continue to be taken into account so as to ensure that changes in the pension adjustment system would not require increases in the financial liabilities of Member States".

(Those guidelines provided that adjustments for country-to-country differences in the cost-of-living should be limited.)

161. The Board reviewed information provided by the Secretary on: (a) the additional pension amounts actually paid, under the longer-term modification, during the period 1 April 1992 through 31 March 1994, as compared with the amounts that would have been paid under the previous arrangements; and (b) the cost estimates prepared by the Consulting Actuary, which indicated that the emerging long-term additional costs involved were in the order of 0.26 per cent of pensionable remuneration.

162. From the two-track benefits processed during the period 1 April 1992 through 31 March 1994, 143 retirement or early retirement benefits had been affected by the 1 April 1992 modification of the pension adjustment system. That number included all participants in the Professional and higher categories who had provided proof of residence in countries for which the criteria for application of cost-of-living differential factors in determining the initial local currency track pension had been met. The table below provides a summary comparison of the costs, in United States dollar terms, of the total amounts of the benefits actually paid in the 11 countries concerned with the amounts that would have been paid under the previous arrangements. In some of those countries, there were quarters during the period examined when the dollar track amount was paid as it was higher than the local currency track amount, notwithstanding the application of the 1 April 1992 modification.

163. The Consulting Actuary advised that it would not be appropriate to use the actual additional payments made in a given period as the sole measure of the true long-term cost. First, the additional payments made over successive intervals would tend to change as the number of newly retired pensioners in the so-called high-cost countries increased, which in turn would lead to a pattern of changing costs as a percentage of payroll. Secondly, significant volatility in inflation and currency exchange rates can be expected from valuation to valuation. The Consulting Actuary therefore determined the emerging actual cost of the 1 April 1992 modification by using a methodology that took into account the actual additional payments made between valuations and also allowed for changes in the geographic distribution of recipients receiving the benefits. The emerging additional costs from one period to another would be used to develop actuarial adjustment factors, which would be averaged over successive valuations to reduce volatility. The Consulting Actuary stressed that the cost estimates would be highly sensitive to changes in the inflation rates and currency fluctuations.

Cost comparison of benefits which were subject to cost-of-living differential factors for the period 1 April 1992 through 31 March 1994

Countries	Number of benefits	Percentage distribution	Total amount payable: previous system	Total amount payable: modified system	Difference	Percentage increase
			(US dollars)			
Denmark	1	0.7	4 675	4 721	46	0.98
France	29	20.0	875 420	882 103	6 683	0.76
Germany	8	5.6	227 873	234 246	6 373	2.80
Ireland	3	2.1	93 689	102 292	8 603	9.18
Japan	12	8.4	732 941	969 090	236 149	32.21
Luxembourg	1	0.7	14 734	15 075	341	2.31
Norway	1	0.7	2 162	2 523	361	16.71
Spain	3	2.1	80 920	83 763	2 843	3.51
Sweden	2	1.4	10 005	10 294	289	2.89
Switzerland	77	54.1	3 141 156	3 625 741	484 585	15.43
United Kingdom	6	4.2	113 397	115 452	2 055	1.81
Total	143	100.0	5 296 972	6 045 300	748 328	14.13

164. The methodology used by the Consulting Actuary was reviewed by the Committee of Actuaries, which agreed that it should be applied in assessing the emerging cost on the occasion of the next valuation of the Fund, at which time the methodology would be re-examined. It concurred with the Consulting Actuary that, because of the volatility of the emerging costs, there could be no assurance that the current cost estimate would hold true for the future.

165. The Board noted with satisfaction that the current cost estimate of 0.26 per cent of pensionable remuneration was in line with the earlier estimate of 0.30 per cent. One representative of a governing body stated, however, that it was premature to reach any conclusion as to whether the pension adjustment system might require fine-tuning in the future and that the additional costs had to be kept under close review. The Board agreed to review the matter further at its next regular session, on the basis of the second assessment of the actual costs of the 1 April 1992 modification, at which time the results of the next actuarial valuation of the Fund would be available.

C. 120 per cent cap provision under the two-track adjustment system

166. The two-track pension adjustment system, which has been in effect since 1 January 1979, provides for the establishment of an initial dollar pension amount for every beneficiary (the entitlement under the Regulations of the Fund) and, for each participant who utilizes the option of providing proof of residence in any country other than the United States, an initial local-currency pension amount. The initial pension amounts on both tracks are subsequently adjusted by the United States consumer price index and the local consumer price index, respectively. Until 1 January 1985 the higher of the two amounts had been paid, as measured on a quarterly basis. In 1984, to limit "windfall" gains

when the dollar is strong, the General Assembly approved the introduction of a "cap" on the extent to which the dollar track amounts could exceed the local track amounts. The 120 per cent cap provision, which entered into effect on 1 January 1985, provides that in countries where the dollar track amount, when converted into the currency of the country of residence, yielded more than the local currency track amount, the amount payable was limited to a maximum of 120 per cent of the local currency track amount.

167. In section IV of resolution 46/192, in 1991, the General Assembly requested the Board to consider a change in the "120 per cent cap" provision, given the increased protection provided by the local currency track pensions under the modification of the pension adjustment system it had approved with effect from 1 April 1992. At its session in 1992, the Board had considered a statistical analysis of the benefits in award as of 1 May 1992, and after an exchange of views on the desirability of changing the "cap" provision, it had:

> "agreed, in principle, that the '120 per cent cap' could be changed with effect from either 1 January 1995 or 1 April 1995. It requested the Secretary to prepare, for the 1994 session of the Board, a further study on: (a) the level to which the current cap could be lowered; (b) whether a revised cap provision should apply to all beneficiaries or only to beneficiaries whose pensions had been based on the previous interim floor measure which had applied from 1 January 1988 to 31 December 1990, or on the transitional measure which had applied from 1 January 1991 to 31 March 1992, or on the recent modification of the pension adjustment system which entered into effect on 1 April 1992; and (c) any future transitional measures which would accompany any change in the cap provision".

In section V of resolution 47/203 of 22 December 1992, the General Assembly reiterated its request that the Board continue to consider economy measures, including in particular a change in the "120 per cent cap" provision.

168. At its July 1994 session, the Board examined the further study prepared by the Secretary, which included an updated statistical analysis of the benefits in award as of 1 May 1994. As of that date, there were 30,047 main benefits in award (excluding children's benefits), of which 19,009, or 63.3 per cent, related to beneficiaries with only a dollar pension entitlement and 11,038, or 36.7 per cent, to beneficiaries who were on the two-track pension adjustment system (i.e. had two pension records, both a dollar track and a local currency track) since they had provided proof of their residence outside the United States. Of the 11,038 beneficiaries with two-track pension records, 7,012 were paid the local currency track amount, 3,083 were paid the actual dollar track amount, 561 were subject to the current 120 per cent cap provision and 382 were paid according to protected dollar track amounts (either the December 1984 amount guaranteed under the transitional measures adopted when the 120 per cent cap was introduced, or the basic dollar benefit under the Regulations).

169. The table below provides a summary breakdown of the 3,083 beneficiaries on the two-track system who were paid the actual dollar track amount, as of 1 May 1994, according to the year of separation and the percentage by which the local currency equivalents of the dollar track amounts exceeded the local currency track amounts:

Year of separation	Percentage by which dollar track amount exceeds local currency track amount				
	less than 5%	5 to 9.99%	10 to 14.99%	15 to 19.99%	Total
Prior to 1979	359	379	264	112	1 114
1979 to 1981	120	142	143	159	564
1982 to 1984	159	179	142	94	574
1985 to 1987	72	12	12	2	98
1988 to 1990	118	47	41	21	227
1991 to March 1992	117	18	28	31	194
April 1992 to April 1994	106	146	32	28	312
Total	1 051	923	662	447	3 083

170. As indicated in paragraph 168 above, 561 additional beneficiaries with two-track pension records were paid under the United States dollar track as of 1 May 1994, but the dollar amount was reduced by application of the 120 per cent cap (i.e. they received 120 per cent of the local currency track amount). This represented a significant increase from the 82 beneficiaries who had been in that situation on 1 May 1992. The 561 beneficiaries so affected resided in 43 countries, with 467, or 83.2 per cent, residing in the 8 countries shown in the table below. In each of the other 35 countries, there were no more than 8 such beneficiaries.

	Total	Professional and above	General Service
Australia	32	25	7
Canada	110	84	26
Italy	164	49	115
Spain	29	16	13
Sweden	53	52	1
Syrian Arab Republic	22	14	8
United Kingdom	27	10	17
Congo	30	3	27
Sub-total	467	253	214
Other countries (35)	94	67	27
Total	561	320	241

171. Since 1986, the majority of beneficiaries, ranging from 58 to 63 per cent have had only dollar pension records. The proportion of beneficiaries under the two-track system who had actually received the local currency track amount has ranged from a low of 23 per cent in April/June 1986 to a high of 87.8 per cent in May 1992 (the May 1994 level was 63.5); the others had been paid the dollar track amount, or the dollar track amount reduced by application of the 120 per cent cap, or the 31 December 1984 guaranteed dollar track amount, or, for those who had retired on or after 1 January 1985, the unadjusted basic dollar benefit under the Regulations. The changes in these proportions over time reflected: (a) the impact of fluctuations in the value of the dollar in relation to a number of other currencies; (b) the one-time measure taken in 1991 to permit a closed group of beneficiaries in low-cost countries to opt out of the two-track arrangement; and (c) the decisions made by beneficiaries as regards whether and

when to provide proof of residence so as to have two-track pension records established.

Level to which the current cap could be lowered

172. When the two-track adjustment system was introduced in 1979, the initial local currency pension amount had been determined by applying, to the basic dollar entitlement under the Regulations, the higher of the spot exchange rate or the 36-month average exchange rate. The pension amount payable each quarter had been the higher of the local currency pension or the local currency equivalent of the United States dollar track amount, as adjusted. In 1981, the "Washington Formula" entered into effect, under which cost-of-living differential factors were introduced to determine the initial local currency pensions in high-cost countries and the 36-month exchange rate was adopted as the means of converting all basic dollar pension amounts into the initial local currency pension amounts. The use of the spot exchange rate, if higher, had been eliminated in the interest of greater stability, i.e. to avoid significant fluctuations in the amounts of the initial local currency pensions from one month to the next. In 1992, the "Washington Formula" was modified to provide greater compensation for cost-of-living differences between the country of retirement and the base of the system, New York; i.e. the schedule of cost-of-living differential factors was modified.

173. The use of the 36-month average exchange rate, with or without the cost-of-living differential factors under the "Washington Formula," yielded a larger amount in local currency if the separation occurred at a time when the dollar was depreciating against the local currency. Conversely, when the spot rate for the United States dollar against the local currency was higher than the 36-month average, the dollar track yielded the larger benefit in terms of local currency units. The "higher of the two tracks" formula, which had been in force prior to 1 January 1985, guaranteed that a beneficiary on the two-track system would receive no less than the local currency equivalent of the dollar track amount. When the value of the dollar was declining and the spot exchange rate was lower than the 36-month average exchange rate, the local currency track pensions led to increased costs for the Fund in dollar terms. When the dollar strengthened, as for example during the latter part of 1983 and in 1984, the dollar track amount became higher, in some locations substantially higher, by 40 per cent or more; it was for this reason that the 120 per cent cap was introduced. The rationale was, and has remained, that, in respect of the two-track adjustment cases, a "cap" provision would lead to dollar savings for the Fund during periods when the dollar was strong so as to offset over time, at least in part, the additional costs in dollar terms involved in the payment of local currency track pensions when the dollar was weak.

174. When the 120 per cent cap was introduced in 1985, it was accompanied by transitional measures which: (a) provided to all beneficiaries who were on the two-track system as of 31 December 1984 the opportunity to "opt out," since the "rules of the game" had been changed; (b) for those who remained on the two-track system, guaranteed payment of amounts that were no less than the accrued dollar track amounts as of 31 December 1984; and (c) provided that participants retiring on or after 1 January 1985 could not receive less than the basic dollar pension entitlement under the Regulations.

175. When the Board recommended the 120 per cent cap in 1984, it had expressed the view that such a cap provided:

"a fair balance between the entitlement to a full United States dollar-denominated benefit and the need to safeguard the purchasing power of the benefit in local currency terms". 16/

176. In his study the Secretary noted that it would not be possible to devise a "perfect cap" arrangement. A return to the situation prior to 1 January 1985, namely, the "better of the two tracks", with no cap, would increase costs and might give results which would significantly improve, rather than simply protect, the purchasing power of pensions in award. If the cap were lowered to 100 per cent, the pension amount payable to those under the two-track adjustment system could in principle never be more than the local currency track amount. However, provision would still have to be made to ensure that the amount payable: (a) could not be less than the local currency equivalent of the initial dollar pension under the Regulations; (b) for those who separated before 1 January 1985, could not be less than the accrued December 1984 dollar amount; and (c) for those who separated before the date of implementation of the lower cap, could not be less than the local currency equivalent of the accrued dollar amount on the day before the implementation of the lower cap.

177. The information provided to the Board indicated that a 100 per cent cap, or any other cap below 120 per cent, would have the greatest impact on beneficiaries who resided in countries where there were likely to be frequent and significant changes in the relative value of the local currency vis-à-vis the dollar, thus making all the more difficult the exercise of a choice between opting for the two-track system or remaining on the dollar track only. From a legal perspective, if a revised cap were adopted, it would appear necessary to protect the adjusted pension amounts accrued by existing beneficiaries as of the time of the change, or to give them an option to revert to the dollar track. A 100 per cent cap could discourage many beneficiaries from opting for the two-track adjustment system, thus foregoing stability relating to the local currency amount of their pensions because of concerns that they might receive pensions lower than the adjusted dollar track amount should the local currency weaken against the dollar. Moreover, they could face, in the future, the possibility of their pensions being less than those of later retirees who had opted for the dollar entitlement only.

178. On the other hand, the Secretary's study showed that the case for retaining the 120 per cent cap was not as strong today as it had been in 1984. The longer-term modification of the pension adjustment system yielded income replacement ratios in high-cost countries which corresponded closely (within 5 per cent or less) to those at the base of the system. Therefore, all former participants in the Professional and higher categories on the two-track system, retiring on or after 1 April 1992, would receive, at all locations, initial pensions which either corresponded closely to, or were higher than, those in New York.

Scope of application of a revised "cap" provision and transitional measures, if required

179. As indicated in paragraph 167 above, in 1992 the Board had requested the Secretary to study further:

"whether a revised cap provision should apply to all beneficiaries or only to beneficiaries whose pensions had been based on the previous interim floor measure, the transitional measure, or on the recent modification of the pension adjustment system".

In his study the Secretary indicated that multiple cap arrangements depending on dates of separation would result in anomalies and inequities; for example, beneficiaries who retired before 1 April 1992 and had their initial local currency pensions established under either the interim floor measure or the transitional measure, would then presumably retain the added protection of the 120 per cent cap provision, even if their local currency track pensions were in fact higher than those of participants who retired on or after 1 April 1992. On the other hand, the Secretary noted that some anomalies were unavoidable, given the inevitable time-to-time differences in the levels of pensions and the need to protect acquired rights whenever changes were made. Such anomalies would exist, regardless of the level of the cap, the scope of its application and the effective date of implementation of any new cap provisions. At the very minimum, should the new lower cap provision apply to benefits payable in future to beneficiaries currently on the two-track system, they would have to be given the option of withdrawing their proof of residence and reverting to the dollar track only, as had been done in 1985 when the 120 per cent cap was introduced.

Views of the Committee of Actuaries

180. The Committee of Actuaries noted that the current level of the cap had not been determined on a technical or scientific basis, but had rather emerged in 1984 as part of a negotiated package of economy measures to reduce the actuarial imbalance of the Fund. It also noted that, in response to requests made by the General Assembly, the level of the cap had been reviewed on several occasions. The Committee reiterated its view that the desirable level of the cap was a judgmental issue to be resolved by the Board, rather than an actuarial issue. The Board would have to decide on the level to which the 120 per cent cap should be lowered, to whom the revised cap should apply, and what should be the recommended transitional measures. The Committee observed that, if the cap were to be lowered, there would obviously be some savings to the Fund; it therefore requested the Consulting Actuary to provide the Board with broad estimates of the savings that might be achieved should the cap be lowered. The Committee of Actuaries also expressed the view that, if the Board were to decide to recommend a lowering of the cap,

> "it should be done in a manner which would avoid or limit the possibility of creating uncertainties or confusion for current pensioners. Every effort should be made to minimize the additional administrative burdens that would arise in changing the existing arrangements".

Estimated cost savings of possible reductions in the 120 per cent cap

181. The Consulting Actuary provided the Board with broad estimates of the savings that might be achieved should the 120 per cent cap provision be lowered. The estimates were based on the assumption that changes to the two-track system would apply for current and future participants only, i.e. not to those already in receipt of benefits. Additional savings would be realized if any reductions to the cap provision were also made applicable to current pensioners and beneficiaries. The extent of those savings would depend on the nature of the transitional arrangements.

182. The table below presents the estimated cost savings, expressed as a percentage of pensionable remuneration, in respect of possible reductions in the cap from the current level of 120 per cent, to 110 per cent or 100 per cent, assuming utilization rates (i.e. the percentage of retirees electing to receive benefits under the two-track system) of 35 per cent, 30 per cent and 25 per cent.

Estimated cost savings under possible reductions in the 120 per cent cap

(Percentage of pensionable remuneration)

Utilization rate	Per cent cap		
	120	110	100
35%	-	.10	.30
30%	.32	.41	.58
25%	.64	.71	.86

183. The base line utilization rate in the above table is 35 per cent, which was close to the utilization rate for the two track adjustment system in May 1994. The Consulting Actuary indicated that the utilization rate could be expected to decrease if the cap were reduced and this would increase the cost savings; however, it would be difficult to estimate the extent of any reduction in the rate of utilization.

Discussion in the Board

184. During the discussions in the Board, the representatives of the executive heads and of the participants took the position that no change should be made in the current arrangements, particularly in the light of recent currency exchange rate fluctuations. It was recalled that the possibility of lowering the 120 per cent cap had been considered by the Board several times, in response to requests from the General Assembly, and that on each occasion the Board had concluded that lowering the cap would not result in significant savings and that the implementation of any change would require extensive transitional measures and time-consuming procedures. Reference was also made to the views expressed by the Committee of Actuaries both in 1986, when the Committee stated that it was undesirable to make frequent changes in the pension adjustment system and that in general changes should only be made for important reasons, and in its latest report to the Board (see para. 180 above). It was also suggested that a 100 per cent cap would involve, in effect, the abolishing of the two-track system for retirees in low-cost countries.

185. The representatives of the General Assembly stated that the substantive decision to change the 120 per cent cap provision had already been made by the Board in 1991, and that now the credibility of the Board before Member States was at stake. They proposed a reduction of the cap to 100 per cent with effect from 1 January 1996, with application to participants retiring on or after that date.

186. The representatives of some of the other governing bodies agreed that the 120 per cent cap should be lowered, but maintained that it should be done in the context of the comprehensive reviews of the pensionable remuneration and pensions for all categories of staff, which were scheduled to be undertaken in 1996. They stated that not all of the elements were available to make a decision on a change at this time.

187 Following an extensive exchange of views during which it was not possible to reach a consensus on the item, the Board referred this issue to the small "contact group," established to develop a consensus agreement on four of the

items on which differences had emerged during the initial discussions in the Board (see para. 71 above).

188. As a result of those negotiations, consensus agreement was reached by the Board on all four items, including a recommendation for a reduction of the 120 per cent cap provision to 110 per cent with effect from 1 July 1995, with the revised arrangements applying to participants separating from service on or after that date. Assuming a conservative decrease in the utilization rate of the two-track option below 35 per cent, the Consulting Actuary estimated the actuarial savings resulting from adoption of a 110 per cent cap at approximately 0.20 per cent of pensionable remuneration. Some members stated that the 110 per cent figure for the cap might be taken as the minimum required to maintain the two-track adjustment system.

189. Following the decision to recommend a lowering of the cap provision to 110 per cent, the representatives of the General Assembly noted with satisfaction that the agreement in principle reached in the Board in 1991 and 1992 to change the 120 per cent cap would be implemented in July 1995, if approved by the General Assembly. They recalled the request of the General Assembly, in section V of resolution 47/203, that the Board should continue to consider economy measures, and believed that, in view of the limited scope of savings to be achieved in the pension adjustment system, the functioning of the new 110 per cent cap and its cost implications should continue to be monitored.

190. The actuarial implications of each of the four items covered by the consensus agreement are summarized in annex VI below. The Board requested that the actual costs of the four changes be monitored and a report submitted thereon on the occasion of actuarial valuations of the Fund.

D. Review of the special index for pensioners

191. When the Board recommended in 1991 a modification of the "Washington Formula," effective 1 April 1992 it also agreed to study the special index for pensioners, in the light of the changes made in the "Washington Formula." As reported to the General Assembly in 1992, 17/ since the current provisions of the special index had been adopted by the General Assembly in resolution 37/126 of 17 December 1982 on the recommendation of the International Civil Service Commission (ICSC), which had studied the matter in cooperation with the Board, the Board had requested the Commission to undertake a review of those provisions with a view to formulating recommendations, in cooperation with the Board, for submission to the Assembly in 1994. This matter was considered by ICSC at its June/July 1994 session. The views and decisions of the Commission, which are contained in chapter III, part A, of its annual report to the General Assembly, 18/ were considered by the Board at its July 1994 session.

192. In recommending the "Washington Formula" in 1980, the Board had informed the General Assembly 19/ that reservations had been expressed by some members of the Board regarding the appropriateness of using the post adjustment system for measuring cost-of-living differences faced by pensioners, since the post adjustment levels were based on expenditure patterns of expatriate serving staff and, in particular, did not take into account the income tax factor. Since pensionable remuneration was established on a "gross basis", on the expectation that pensions, unlike salaries, would be subject to taxation, the General Assembly requested ICSC and the Board to consider the desirability of establishing a special index for pensioners, which would take into account the impact of the income tax factor. The special index eventually developed by the

Commission, in close cooperation with the Board, constituted a method for decreasing the cost-of living differential factors otherwise applicable in countries where the taxes were lower than the staff assessment rates reflected in the levels of pensionable remuneration. The special index provisions were approved by the General Assembly in 1982.

193. At its June/July 1994 session ICSC reviewed the parameters of the special index, in light of the changes which had taken place since their introduction, in the methodology for determining pensionable remuneration for staff in the Professional and higher categories and the 1992 modification of the "Washington Formula".

194. Among the items identified for review, in a note prepared by the secretariat of ICSC, in consultation with the secretariat of the United Nations Joint Staff Pension Fund, were the following:

(a) The two-step procedure for calculating the special index for pensioners, which is set out in the annex to the booklet describing the pension adjustment system (JSPB/G.12/Rev.2);

(b) The level (grade and step) used to compare staff assessment with the taxes imposed in the country of residence, currently P-2, top step, i.e. the final average remuneration (FAR) limit under the 1981 "Washington Formula";

(c) The number of years of contributory service used in special index calculations (currently 20 years);

(d) Consistency in the treatment of deductions in the tax calculations used to determine the special index in relation to the deductions used to determine staff assessment.

195. The Commission decided to report to the General Assembly that it planned to address, in cooperation with the Board, all aspects of the special index as part of the 1996 comprehensive review of the pensionable remuneration and consequent pensions for staff in the Professional and higher categories. While recognizing that a case could be made for changing the level used to compare staff assessment with taxes imposed in the country of residence, based on the change in the FAR limit under the "Washington Formula" from P-2, top step, to P-4, top step, the Commission concluded that the other issues involved in calculating the special index lent themselves to consideration in the context of the comprehensive review scheduled for 1996.

196. The Chairman of the Commission informed the Board that, although many Commission members were open to a change from the use of the P-2, top step, level as the basis for staff assessment/local tax comparisons, which had been supported by the Consultative Committee on Administrative Questions (CCAQ) and the staff representatives at the Commission session, the Commission had concluded that the only prudent course of action was to defer decisions on the provisions of the special index to 1996. While members of the Commission were aware that certain benefits might be perceived by some from acting now on the P-2 issue alone, it was also apparent to them that such a selective approach might be difficult to justify and could conceivably make an overall solution in 1996 more difficult to achieve.

197. During the discussions in the Board, views differed both as to the scope and timing of changes which might be made. The representatives of the executive heads stated that the issues related to the current special index provisions

could be broken down into: (a) matters which had already been addressed at great length and on which agreements had been reached in the past that should not be re-opened, e.g. the methodologies for determining staff assessment, pensionable remuneration and post adjustments; (b) conceptual matters of a longer-term nature which could be examined in the context of the 1996 comprehensive review; and (c) technical adjustments which could logically be made now without prejudice to the matters which might best be considered in 1996. They were of the view that it would be appropriate to change the level at which staff assessment/local tax comparisons were made from P-2, top step (the FAR limit under the 1981 "Washington Formula") to P-4, top step (the current FAR limit under the 1992 modification).

198. Some members of the Board referred to the complexity of the two-step approach in calculating the special index and the inherent unfairnesss, in their view, of the current provisions which only provided for downward adjustments when local taxes were lower than staff assessment, but not for upward adjustment when local taxes were higher. Some other members stated that there should be a threshold before special index reductions were made, just as there was a threshold for applying cost-of-living differential factors.

199. Several participants' representatives expressed the view that the provisions of the special index were both illogical and unfair. They highlighted the anomaly created by the application of the special index reductions in Austria (based on the absence of local taxation on United Nations pensions) to all beneficiaries residing in that country, including those who had to pay taxes to another country, (e.g., beneficiaries of United States nationality residing in Austria). In their view, this issue should be examined by both ICSC and the Board during the review of the special index provisions in 1996. These participants' representatives favoured either abolishment of the special index or a total overhaul of its current provisions.

200. The representatives of the General Assembly endorsed the position taken by ICSC to defer an in-depth review of the special index provisions until 1996, so that all elements could be reviewed in the context of the comprehensive review of pensionable remuneration and consequent pensions. They believed this to be the only sensible course of action.

201. The Board decided to defer consideration of the special index for pensioners until 1996.

E. Application of the 1 April 1992 modification of the pension adjustment system to staff in the General Service and related categories

202. When the "Washington Formula" was introduced in 1981, both ICSC and the Board considered that the use of cost-of-living differential factors was not required for General Service participants who retired in the country of their last duty station as their pensionable remuneration, unlike that of Professional participants, was related to their total remuneration. However, both bodies agreed that, for all General Service staff (whether locally or non-locally recruited) who retired in countries other than that of their last duty station, cost-of-living differential factors should be applied on the basis of the difference between the midpoints in the salary scales in the country of retirement and that at the last duty station.

203. Accordingly, by analogy with the schedule of cost-of-living differential factors introduced on 1 January 1981 for Professional staff, a similar schedule, based on the ratio of the mid-point net salaries at the duty station and at the place of residence, was implemented for General Service participants. This schedule reflected the same threshold and progressive scale of cost-of-living differential factors that applied to retirees from the Professional and higher categories and incorporated the same FAR limit, i.e. pensionable remuneration at grade P-2, top step. However, it was agreed that the special index would not apply with respect to General Service staff.

204. Under the 1 April 1992 modification of the pension adjustment system, a new schedule for the determination of the cost-of-living differential factors was introduced for the Professional staff. In recommending that modification, the Board had informed the General Assembly 20/ that, taking into account the ongoing review of the pensionable remuneration and consequent pensions of the General Service staff, it would consider only at a later stage the possible application of this modification to General Service staff.

205. After considering a fundamental change in the methodology for determining the General Service pensionable remuneration, namely, the so-called "local" approach, the Commission and the Board had agreed, and the General Assembly concurred in 1993, that the methodological approach of relating General Service pensionable remuneration to salaries received while in service should continue, but with changes in the parameters and procedures currently used in deriving the pensionable remuneration from the net salary, i.e. the "grossing-up" process. In section I of resolution 48/225 of 23 December 1993, the General Assembly approved the recommendation made by the Commission to apply an income replacement approach analogous to that used in determining the pensionable remuneration of staff in the Professional and higher categories. Moreover, under the revised arrangements, the procedure for interim adjustments of General Service pensionable remuneration between comprehensive surveys will be the same as that applicable to Professional staff and a common scale of staff assessment will be introduced in 1997 for application in the "grossing-up" process for both Professional and General Service staff.

206. In its position last year on the issues addressed in the comprehensive review, contained in its report to the General Assembly, 21/ the Board agreed that the extension to General Service staff of the application of the 1992 modification of the pension adjustment system "would be taken up, on a priority basis, at the next regular session of the Board, in 1994".

207. As of 1 May 1994, the majority of retired General Service participants (or their beneficiaries), 6,833 out of 10,957, or 62.4 per cent, have not submitted proof of residence (i.e. have only the dollar pension entitlement under the Regulations). Of the 4,124 General Service retirees (or their beneficiaries) who have provided proof of residence, it is estimated that at most 5 per cent reside in a country other than the country of their last duty station.

208. The Secretary informed the Board that, of the General Service retirees who had provided proof of residence and therefore had a local-currency track pension record, as of 1 May 1994, only 20 had their initial local currency pensions calculated on the basis of the cost-of-living differential factors under the 1981 "Washington Formula". He indicated further that the small number of cases was most likely due to the following factors: (a) the overwhelming majority of General Service participants would, in principle, have been recruited locally and would either not be inclined or would not have the opportunity to reside in a country other than that of their duty station; and (b) for those who had

provided proof of residence outside the country of their last duty station, the difference in the mid-point General Service salary level in the country of retirement had not exceeded the mid-point salary in the scale in the country of the last duty station by at least 22 per cent. If the threshold for applying cost-of-living differential factors were lowered from 22 to 5 per cent, as was done for the Professional category, the number of General Service retirees who could benefit in future from the modification would most likely increase. However, the extent of the increase would be difficult to predict. First, as already indicated, the opportunities for General Service staff to reside in a country other than that of their last duty station were limited; secondly, the perceived monetary advantages, in the form of receiving a higher initial local currency pension, would have to be weighed against the higher cost of living in the country of retirement. At the same time, the Secretary noted that there were cases where the differences in the levels of General Service salaries at two duty stations did not seem to be commensurate with the differences in the cost of living for those two locations, at least as measured by the applicable post adjustment classifications.

209. During the discussion in the Board, the view was expressed that, owing to the predominantly "local" nature of General Service staff and to constraints on mobility, the number of retirees in that category who might benefit from an improved cost-of-living differential factor schedule would not increase significantly. In its comments on the matter the Committee of Actuaries indicated that the additional cost would be difficult to assess because of the inherent unpredictability as to both the countries and the number of beneficiaries that would be involved; the Committee believed it unlikely, however, that the additional cost would be actuarially significant.

210. As part of the consensus reached on four issues considered at the session, to which reference has been made earlier (see para. 71 above), the Board concluded that it would be both logical and equitable to extend to General Service staff the improvement made in the pension adjustment system for Professional staff. The Board therefore recommended the introduction, as from 1 July 1995, of the following revised schedule of cost-of-living differential factors for General Service retirees who provided proof of residence in a country other than the country of their last duty station.

Ratio of mid-point net salaries		Cost-of-living differential factor	
		Current	Revised
		(Percentage)	
Less than	105	0	0
	105	0	3
	110	0	8
	116	0	14
	122	3	19
	128	7	25
	134	12	31
	141	17	38
	148	22	45
	155	28	52
	163	34	60
	171	40	68
	180	46	76
	189	46	85
	198	46	94
	208 or more	46	104

Special adjustment for small pensions

211. In 1992, the Board had recommended, and the General Assembly had approved, the revision of the annual amounts of pensions subject to the special adjustment for small pensions, which had remained unadjusted since 1981. 22/ These adjustments apply, de facto, only to retirees from the General Service category, as the maximum amount subject to such adjustment was lower than a pension based on a FAR corresponding to the lowest pensionable remuneration on the Professional pensionable remuneration scale, when combined with the minimum qualification period of 15 or more years of contributory service. The Board decided at that time to defer revision of the adjustment percentages until it considered the extension of the modified cost-of-living differential factors to General Service staff.

212. Therefore, as part of its recommendation of a revised schedule of cost-of-living differential factors applicable to determine the initial local currency pensions of General Service staff, the Board also decided to recommend the introduction, also effective 1 July 1995, of a corresponding modification in the schedule of special adjustments for small pensions, as set out below:

Annual amount of pension	Special adjustment (Percentage)
$	
6 500	0
6 250	3
6 000	7
5 750	12
5 500	17
5 250	22
5 000	28
4 750	34
4 500	40
4 250	52
4 000	60
3 750	68
3 500	76
3 250	85
3 000	94
2 750	104

F. Adjustment of pension in countries with high inflation rates

213. At its 1992 session, the Board requested the Secretary to prepare a study on the adjustment of pensions in countries with very high inflation rates. Since then, participants' representatives in IAEA, ILO and UNIDO had also requested a study on the actuarial implications of moving to quarterly or monthly adjustment of pensions in high inflation/soft currency locations.

214. It will be recalled that, in 1974, the frequency of adjustments was changed from annual to quarterly, based on a movement of the consumer price index by 3 per cent or more. In the context of economy measures to reduce the Fund's actuarial imbalance, the frequency and trigger point for adjustments were changed in 1983 and 1985. In 1983, the frequency was changed from annual to semi-annual, with an increase in the trigger point from 3 to 5 per cent. In 1985, the frequency was reduced from semi-annual to annual, with adjustments to be made on 1 April, and the trigger point reverted to 3 per cent, subject to semi-annual adjustments, effective 1 October, for locations where the cost-of-living had increased by 10 per cent or more. Subsequently, a liberalization was introduced in the light of delays in the publication of cost-of-living indices for a number of countries, wherein additional measurements of cost-of-living movements are taken in June, with retroactive implementation of the resulting adjustment to April, and in January, with retroactive implementation of adjustments to October; the January measurement applies only for locations where the cost-of-living movement had increased by 10 per cent or more.

215. The Board reviewed statistical information on countries where the inflation rates had been equal to, or higher than, 10 per cent at least once during the past five years. The data covered beneficiaries who, having provided proof of residence in one of these countries, were effectively being paid on the local-currency track, and were accordingly affected by the rate of inflation in their country of residence. The data indicated that a relatively small number of beneficiaries, 119 out of the 7,012 being paid under the local currency track as of May 1994, were in that situation. Of the 119, only 13 were residing in

countries where the inflation rate was such that two adjustments per year had occurred at least 3 times over the past 5 years.

216. During the discussions in the Board, the FAO Staff Pension Committee advocated introduction of quarterly adjustments that would apply in April, July, October and January, based on the index movement up to the fourth month prior to the month of implementation. Under the FAO proposal, quarterly adjustments would be subject to a 5 per cent trigger, except that the April adjustment would continue to be based on the current 3 per cent trigger.

217. Some members expressed the view that more frequent adjustments would introduce problems as regards the quarterly measurements of the consumer price index movement now made for the purpose of possible retroactive adjustments in April or October, in respect of countries for which the publication of the cost-of-living data was often delayed. Concerns were also expressed about further complicating an adjustment system which was already difficult to administer.

218. Several members stated that, under the current semi-annual scheme, the delays in adjusting pensions in high inflation countries led to severe erosion of the purchasing power of pensions. In such circumstances, there should be additional measures to deal with the problem. They stressed further that the very marginal actuarial implications of such a measure would not justify deferring action on a long overdue improvement of the adjustment provisions for beneficiaries in high inflation/soft currency areas.

219. As regards the actuarial implications of a change, the Committee of Actuaries concluded that, bearing in mind the limited number of beneficiaries potentially affected, this was not an issue to be resolved solely on the basis of actuarial considerations, but rather required a judgement by the Board as to desirability of a change in the frequency of adjustments at this time, taking into account the impact of such a change on pensions in payment and on the administration of an already complex adjustment system.

220. As there was no consensus on the need for a change, the Board concluded that the current arrangements should be maintained and requested the Secretary to continue to monitor the operation of the pension adjustment system in high inflation areas.

G. Variations in pensions according to different dates of separation

221. The variations in pensions according to different dates of separation had been on the agenda of the Board on numerous occasions since 1985, when the General Assembly requested the Board to take such measures as were within its competence and to recommend to the General Assembly such additional measures as would be required to eliminate or significantly reduce inequalities of benefits resulting from different dates of retirement. At the request of the Federation of Associations of Former International Civil Servants (FAFICS), the Board considered the issue again at its July 1994 session. FAFICS submitted an analysis of variations in local currency pension amounts in certain high cost countries, both as initially established at the time of separation from service and as subsequently adjusted to 1990 by local cost-of-living movements. FAFICS proposed a methodological approach for minimization of substantial variations of local currency pensions, based on the implementation of the income replacement approach which had formed the conceptual framework for the longer-term modification of the pension adjustment system that entered into effect on

1 April 1992. As an illustration of the problem, FAFICS provided data on the income replacement ratios in France for retirements on 1 January of each year between 1979 and 1990, which showed that the ratios were lowest for those beneficiaries whose entitlements had become effective between 1979 and 1983.

222. Under this item, the Secretary also brought to the attention of the Board the representations he had received from the Association of Former International Civil Servants in Buenos Aires (AFICS/Buenos Aires) on problems facing beneficiaries in Argentina because of the use of 36-month average exchange rates to determine the initial local currency pension amounts.

223. As regards the FAFICS submission, the Secretary provided the Board with an update of the data contained therein for the period from 1 January 1990 to 30 April 1994. That updating indicated that there was no discernible pattern that would support any assertion or claim that the local currency track pension, as adjusted to 30 April 1994, had been consistently lower for the earlier retiree. For example, in the case of France, the local currency pensions for beneficiaries retiring at the end of 1992 and 1993 (i.e. after the introduction of the 1992 longer-term modification of the pension adjustment system) were lower than the amounts received by retirees from 1983 through 1991. The results for Austria, Italy, Switzerland and the United Kingdom also showed varying patterns. The dollar track amounts also varied according to different dates of separation. Moreover, on many occasions in the earlier years, it was the adjusted dollar amount that was payable, as it was higher than the adjusted local currency amount. The Secretary concluded that he was unable to provide a positive response to the request by FAFICS for concrete proposals aimed at the minimization of variations in local currency pension benefits.

224. As regards the desirability of such attempts, the Committee of Actuaries reiterated the position it had expressed in 1991, namely, that:

> "Any attempts to remove or limit variations in pension amounts according to different dates of separation would be extremely difficult to implement and justify, considering that the purchasing power of initial pensions was maintained after award through cost-of-living adjustments of both the dollar track and the local currency track amounts. Any measures taken in this regard would inevitably result in significant costs and administrative implications, both immediate and long term. The initial amounts of the benefit received by future retirees would have to be continuously compared with the adjusted amounts of the benefits received by earlier retirees and vice-versa, with the consequent adjustments always being upward."

225. The representations received from AFICS/Buenos Aires concerned the problems involved whenever beneficiaries residing in Argentina wished to go on the two-track system in order to preserve the purchasing power of their pensions. Prior to January 1992, Argentina had experienced cycles of steep currency depreciations and high inflation, followed by revaluations of the currency through the introduction of a new currency unit, followed by steep devaluations and high inflation rates, etc. Since the introduction of the new peso currency unit in April 1992, there has been a parity relationship between the peso and the United States dollar; at the same time, the inflation rate has, until recently, been higher than that in the United States.

226. In Argentina, of the 253 benefits in payment, 192 relate to former participants in the Professional category and 61 to those in the General Service category. Of the 12 beneficiaries on the two-track system, 11 were currently paid the local currency track amounts. Under the current parity relationship

between the peso and the dollar, the dollar equivalents of the 11 local currency track amounts were substantially higher than the dollar track amounts. For the other beneficiary, who separated in 1982, the dollar track amount was higher and therefore payable.

227. AFICS/Buenos Aires suggested that action was required to arrest the deterioration in the purchasing power of the dollar pensions of beneficiaries residing in Argentina, resulting from the current parity relationship between the peso and the dollar and from the inflation rate being higher in Argentina than in the United States. It accordingly proposed a modification in the methodology used to determine the initial local currency pension for beneficiaries living in Argentina, under which the spot exchange rate, rather than the 36-month average exchange rate, would be used to convert the dollar base amount into the local currency base amount when the 36-month average rate fell below 80 per cent of the spot exchange rate at the time of retirement.

228. The Secretary provided the Board with detailed data on the evolution of the exchange rates and inflation in Argentina for each month over the period 1 January 1980 to March 1994, as well as calculations of the initial and adjusted pension amounts over the period 1 January 1986 to 1 March 1994, with the initial local currency pension being calculated by using (a) 36-month average exchange rates; and (b) spot exchange rates. These data showed very wide swings in the amounts of the initial local currency pensions using the 36-month average exchange rates, and even wider swings if the spot exchange rates were applied.

229. The Secretary also brought to the Board's attention certain anomalous results that would have occurred in the local currency pensions if beneficiaries in Argentina had provided proof of residence in respect of particular periods of separation. He noted that the extremely high and low amounts which would have resulted, depending on the dates of separation, served as an appropriate basis for suspending the availability of the local currency track in Argentina, subject to close monitoring of future developments and appropriate transitional measures for the beneficiaries currently on the two-track system.

230. During the discussions in the Board, the representatives of FAFICS urged the Board to pursue efforts to find solutions to inequities in the local currency pensions of beneficiaries who retired in high-cost countries, as well as solutions to the special problems faced by beneficiaries in Argentina and other countries whenever earlier periods of steep depreciations of the local currency were followed by the introduction of new currency units which were suddenly at par with the United States dollar or were maintained at stable relationships with the United States dollar.

231. The representatives of the executive heads, while agreeing with the conclusion of the Secretary that there was no discernible pattern in the variations of the local currency pension amounts in high-cost countries, believed that further consideration should be given to the analysis and proposals contained in the FAFICS paper.

232. The representatives of the General Assembly felt that consideration of the question of variations in pensions according to dates of separation should be halted, unless specific means of identifying, defining and minimizing differences or particular remedial measures could be determined and justified. As regards situations like that currently existing in Argentina, support was expressed for the suspension of the local currency track option, pending further

studies of methods to resolve some of the particular problems faced by such pensioners.

233. The participants' representatives urged that accelerated efforts be undertaken to find a solution to situations such as those faced by beneficiaries in Argentina, Brazil, Communauté financière africaine (CFA) countries and other locations experiencing wide fluctuations in exchange rates.

234. After considering a proposal by the Secretary for a temporary ad hoc measure for situations such as those existing in Argentina, i.e. new currencies introduced with a parity or stable relationship with the United States dollar, the Board decided not to recommend to the Assembly a change in the pension adjustment system at this time. Participants' representatives regretted that the matter could not be given further consideration at the Board session; they believed it essential to press forward quickly to find a solution.

235. The Board decided to request the Secretary to prepare studies, for consideration by the Board at its session in 1996, on:

(a) The pensions of former participants who retired in high-cost countries during the period from 1 January 1979, when the two-track pension adjustment system was introduced, through 31 December 1983, examining the initial pension amounts and all subsequent adjustments made, in order to determine whether a discernable pattern emerged;

(b) Problems or anomalies which may arise in the operation of the pension adjustment system in countries which have had, or might have in the future, very wide fluctuations in the exchange rate, thus affecting the intended stability envisaged in the use of the 36-month average exchange rate to determine the initial local currency pensions.

236. With respect to the second study, the Board requested that particular consideration be given to the problems encountered in countries like Argentina, in which dramatic changes were suddenly made and maintained in the relationship between the local currency and the United States dollar, after a long period of steep depreciation of the local currency and high inflation rates. The Secretary was requested to present a report on this matter to the Standing Committee in 1995.

VII. INTERPRETATION AND APPLICATION OF THE TRANSFER AGREEMENTS BETWEEN THE FUND AND THE FORMER UNION OF SOVIET SOCIALIST REPUBLICS, UKRAINIAN SOVIET SOCIALIST REPUBLIC AND BYELORUSSIAN SOVIET SOCIALIST REPUBLIC

237. Every year since 1991, the Board has considered and reported to the General Assembly on issues related to the interpretation and application of the Transfer Agreements with the Governments of the former USSR, Ukrainian SSR and Byelorussian SSR, which had entered into effect on 1 January 1981. 1/, 2/, 3/ In 1991, the Board was informed of the numerous representations from former Fund participants from the three countries concerned claiming that, contrary to the terms of the transfer agreements, their transferred UNJSPF pension rights had not resulted in increases in their pension benefits under the applicable national pension or social security schemes. The Board requested its Secretary to initiate discussions with the Permanent Missions of the three Member States "with a view to determining the extent to which the concerns that had arisen in the application of the transfer agreements could be resolved".

238. Representations had also been received from participants who had re-entered the Fund after having transferred their UNJSPF pension rights under the agreements, requesting that they should have the right to restore their prior periods of contributory service to the Fund. The Board had decided in 1991 that the former participants concerned should be entitled to restore their prior contributory service, provided that the restoration requirements under article 24 of the Fund's Regulations were otherwise met (the primary requirement being that the prior service had been for less than five years or that it had ended before 1 January 1983). The Board therefore adopted the principle that former participants who had availed themselves of the transfer agreements should not be placed in a worse position with respect to restoration than other re-entrants, even though they had opted to transfer their entitlements rather than taking a benefit from the Fund when their prior period of service ended. Some 130 re-entering participants from the countries concerned made the necessary payments to restore their prior service. It should be noted that these participants had to meet the costs themselves, as the monies transferred to the former USSR Social Security Fund on their account were not returned to them.

239. In 1992, the heavy volume of communications from former participants and from the retiree associations in Moscow and Kiev continued. The discussions of the Secretary with the Permanent Missions of the countries concerned had not progressed beyond an unofficial and preliminary stage. The Secretary had therefore suspended the processing of any further transfers under the three agreements effective 2 January 1992. Such transfers will not be resumed until the status of those Transfer Agreements, their applicability with respect to the successor States to the former USSR, and the situation of former UNJSPF participants under the various national social security schemes, have been clarified.

240. At its 1992 session the Board requested the Secretary to continue to pursue, "as vigorously as possible," his discussions with the Permanent Missions of the countries concerned, placing an initial focus on those former participants who at separation could have received retirement or early retirement benefits from the Fund. Detailed statistics were provided to the Board and reported to the General Assembly on the number of cases involved and the amounts transferred to the USSR Social Security Fund. 2/ The Board agreed,

in principle, to consider favourably proposals for the reinstatement of the UNJSPF pension rights of clearly delineated groups of former Fund participants if the amounts transferred under those three transfer agreements with respect to those former participants were repaid to the Fund, with appropriate interest.

241. Representations were also received, in 1992 and in subsequent years, from former participants who had re-entered the Fund and who had transferred pension rights based on five or more years of contributory service ending after 1 January 1983, or who had, prior to 1983, either failed to elect to restore when they had the right to do so, or did not make the required restoration payment(s) within the prescribed time limits. As regards such requests for restoration, the Board reiterated its position of principle that these participants should be treated in the same way as other Fund participants, i.e. neither better nor worse. Therefore, the requests have been denied because the right to restore prior contributory service of 5 or more years of service had been eliminated for all participants, as an economy measure, with effect from 1 January 1983, and, with respect to the other cases, the requirements of the Regulations and Rules of the Fund had not been met.

242. In 1993, in response to continuing representations on the restoration issue, the Board reiterated the position it had taken in 1991 and 1992. The Board was informed that an appeal on this issue by a former USSR national was pending before the United Nations Administrative Tribunal; it is expected that the case will be decided by the Tribunal at its fall 1994 session.

243. The Board also took the following actions in 1993:

(a) It noted the views of the United Nations Legal Counsel as to the legal responsibilities and obligations of the Board under the Transfer Agreements:

> "If nationals of those Governments believe that the Governments have not provided the expected pension benefits under their pension schemes, they should raise those matters with their respective Governments. The Board is, of course, not responsible for the way Governments administer their national pension schemes ...";

(b) It expressed deep concern and understanding on the humanitarian level for the former Fund participants covered by the Transfer Agreements who were now facing acute hardships and requested the Secretary to continue, "in the most effective manner possible," his discussions with the Governments concerned;

(c) It decided at that time not to consider further proposals aimed at providing some ad hoc financial assistance under certain conditions to former USSR participants who were not receiving UNJSPF benefits, either through minimum pensions or through the Emergency Fund;

(d) It requested the Secretary to report to each Board session on his discussions with the Russian Federation on issues related to the Transfer Agreements, and on actions that might be taken in this area by the individual member organizations of the Fund;

(e) It agreed that updated information on this subject should be included in all reports of the Board to the General Assembly.

244. The Secretary has made extensive efforts since 1991, using all available formal and informal means, to enter into discussions with the Permanent Mission to the United Nations of the Russian Federation, as well as with the appropriate

national authorities. He has repeatedly made clear his readiness to discuss the problems which had arisen with any national officials who may be designated for this purpose, in a manner and at a location chosen by such officials. Regrettably, the Secretary has not yet received any formal response to any of his communications.

245. The Board was informed at its July 1994 session that the Secretary had addressed further communications to the Permanent Mission to the United Nations of the Russian Federation and to individual Government officials of the Russian Federation; however, no formal replies had been received. From his informal contacts with several Government officials in the Russian Federation, as well as from information received from representatives of the retiree association in Moscow (AFICS/Moscow), the Secretary understood that the subject of the Transfer Agreements and the situation of pensioners who had transferred their UNJSPF pension rights to the USSR Social Security Fund under those Agreements has been discussed in a number of ministries in Moscow (e.g. the Ministries of Foreign Affairs, Finance, Labour and Social Affairs). Those discussions had taken place in the context of the continuous efforts of the Secretary and of AFICS/Moscow to initiate a dialogue with Government officials in Moscow. The matter had also been raised by former Fund participants in a number of legal forums within the Russian Federation, including a case that is pending before the Constitutional Court of the Russian Federation.

246. As a possible immediate measure to offer some assistance to former UNJSPF participants residing in what had been the USSR, the Secretary suggested that the Board might wish to consider amending the guidelines of the Emergency Fund to permit one-time ex gratia lump-sum payments, under strictly defined circumstances and with relatively low dollar amounts. Such payments would be made, solely in cases of demonstrated hardship, to those who were receiving low national pensions in the former USSR and had no other sources of income. The Secretary outlined the criteria for assistance that might be established if the Board wished to follow this course, and indicated that the existing budgetary allocation for the Emergency Fund would not have to be augmented to finance the payments in question.

247. The Board reiterated its deep concern and sympathy for the difficult conditions faced by the former Fund participants whose UNJSPF pension rights had been transferred to the USSR Social Security Fund under the Transfer Agreements and who were now facing acute hardships. The Board therefore requested the Secretary to continue his discussions with the Governments concerned, exploring all possible avenues and contacts, in the most effective manner possible.

248. After considering the legal, financial and administrative implications, the Board decided against pursuing, for the time being, the Secretary's suggestion for amending the guidelines of the Emergency Fund so as to permit the provision of limited assistance, through one-time payments in cases of demonstrated hardship, to former UNJSPF participants in the former USSR. The Board noted that some of these former participants had asserted legal claims against the Board before various judicial and other organs, and these procedures would first have to be completed. For example, a memorandum from three legal experts from the Russian Federation who had been United Nations staff members had been brought to the attention of the Board. That memorandum contained a detailed legal challenge directed to the Board and proposed possible solutions; the proposals advanced were all premised on a claimed right to receive UNJSPF pensions notwithstanding that the Fund had transferred substantial actuarial sums, as required by the terms of the Transfer Agreements.

249. During the Board discussions of this issue in July 1994, the Secretary clarified the method that had been prescribed under the three Transfer Agreements for determining the amounts to be transferred by the Fund:

(a) For participants with less than five years of service, the "equivalent actuarial value" was transferred, subject to the withdrawal settlement serving as a minimum and twice the participant's own contributions as a maximum;

(b) For those with five years or more of contributory service, the "equivalent actuarial value" was transferred, subject to the withdrawal settlement again serving as a minimum and three times the participant's own contributions as a maximum.

250. Suggestions were made during the discussions on the best way to resolve this issue in consultation with the Government of the Russian Federation. The Board agreed to include, in a separate chapter of its report to the General Assembly, a detailed description of the developments over the past year in respect of this issue, including information on the communications sent by the Secretary to Russian national authorities and on the outcome of legal challenges by former UNJSPF participants in various forums. The Board also reiterated its intention to continue to address this issue in future reports to the General Assembly.

251. The essential issues to be addressed were described in detail in a letter sent by the Secretary to the Vice-Prime Minister responsible for social matters in the Russian Federation, excerpts from which are reproduced below:

> "Under [the Transfer] Agreement ... Pension Fund participants from the former USSR separating from the service of a member organization of the Pension Fund could elect (in point of fact it seems they had no actual choice, based on the representations they have made subsequently) to transfer the actuarial equivalent of their UNJSPF pension entitlements to the Social Security Fund of the USSR; following such elections the individuals concerned ceased to be entitled to any benefits from the UNJSPF. The Transfer Agreements provided that the pension rights accrued while they were participants in the UNJSPF would be taken into account in the determination of their national pension benefits. Between 1958 and 1981, the position of former UNJSPF participants from the USSR was in effect practically the same, at least with regard to their UNJSPF pension rights: they were required to transmit to the national authorities or to a designated bank the withdrawal settlements or other benefits they received from the UNJSPF under its Regulations. When retirees had payments from UNJSPF deposited in the designated bank, they made representations to us regarding the confiscatory taxes amounting to 90 per cent or more of their benefit amount.
>
> "Since 1990 the Pension Fund secretariat has received a growing number of representations from former Fund participants residing in the countries concerned ... that the transfer of the UNJSPF pension rights under the Agreements had not resulted in commensurate increases in the pension benefits they received from the national pension schemes. ...
>
> "The moneys remitted by the UNJSPF on behalf of the UNJSPF participants from the former USSR, whether under the Transfer Agreements or earlier, were absorbed in and credited to the USSR national budget. As the successor state of the USSR, the Russian

Federation has assumed legal responsibility in the international sphere for the obligations incurred by the former USSR. As a legal matter, it would therefore appear that the Russian Federation may have a legal obligation arising from the funds credited to the USSR State Budget on account of these former UNJSPF participants. However, it is claimed by them that, in establishing the type and level of their national pension benefits, no account whatsoever was taken of the years of UNJSPF contributory service or the amounts transferred by the UNJSPF which became financial benefits to the Government of the former USSR. Furthermore, there exists a pronounced element of discrimination and unequal treatment, based solely on the exact time period when the UNJSPF contributory service of these former participants had terminated. Those who left United Nations service prior to 1958 or after 2 January 1992 are in the same position as all other UNJSPF beneficiaries; they enjoy their UNJSPF entitlements in full, without any claims thereon by the national authorities. However, different rules have applied to those who separated between 1958 and 1992 and they are apparently deriving little to no financial benefit from their years of UNJSPF participation. ...

"The ideal solution, which understandably is advocated very strongly by the former UNJSPF participants concerned, would entail the return to the Pension Fund of the sums credited to the USSR State Budget and the re-establishment of their erstwhile UNJSPF pension rights in full. The Pension Board has indicated its agreement in principle to restore those pension rights if the amounts transmitted to the USSR were returned, with appropriate interest. The present situation however seems to represent the other end of the spectrum of possible actions: to ignore completely the spirit and letter of the Transfer Agreements and to provide former UNJSPF participants with no financial benefit whatsoever based on their past UNJSPF contributory service and the amounts credited to the USSR State Budget. The Russian authorities may wish to consider the legal, economic and political justifications for either of these positions, as well as for other possible pragmatic solutions between them.

"I recognize that the lack of meaningful developments to date must be seen in the context of the difficult and fundamental changes taking place in the economic, social and political areas within the Russian Federation. However, a necessary first step would be for the Government of the Russian Federation to indicate in some clear and formal manner that it is prepared to respond to the claims made by the former UNJSPF participants and to satisfy them, whether in whole or in part. While certain preliminary discussions are taking place within the Government, the matter is becoming increasingly urgent due to the serious hardships faced by the former UNJSPF participants, many of whom are of an advanced age.

"Any eventual solution would presumably have to involve either the reinstatement of the pension rights under the UNJSPF Regulations that existed when the former UNJSPF participants separated from service or an appropriate upward adjustment of pension benefits payable by national pension schemes (as foreseen in the Transfer Agreements in question). As noted earlier, the first solution, advocated strongly by the former UNJSPF participants themselves, would require the repayment to the Pension Fund, with interest, of the amounts transferred for the financial benefit of the former USSR. The

timing and modalities for such repayment and resultant commensurate reinstatement of UNJSPF pension rights could be discussed already, with alternatives and options presented to the Pension Board and to the United Nations General Assembly.

"It is my understanding, from informal contacts with several Russian officials, that this subject has been discussed in a number of ministries in Moscow, in the context of direct representations made to the Government by former UNJSPF participants and of the efforts of the Pension Board and myself to initiate a dialogue and negotiations. The matter has also been raised in various legal forums within the Russian Federation, including the Constitutional Court.

"Let me conclude by reiterating my sincere hope that you will take a personal interest in seeking a pragmatic resolution to the difficult problems involved. I would also welcome the opportunity to discuss this matter further with you and/or with any other persons you believe might be helpful in this connection. ... "

252. Since the General Assembly had concurred in the conclusion of the Transfer Agreements in question, in accordance with article 13 of the Fund's Regulations, the Board has felt it important to report to the Assembly continuously and extensively on the problems which have arisen as regards their implementation, as seen by those most directly affected. The fundamental concern of the Board relates to the fact that, while the Fund has carried out its obligation under the Agreements by transferring to the Social Security Fund of the former USSR the actuarial value of the pension rights accrued by the former participants (whereupon, under the Agreement, they "cease to be entitled to any benefit under the Regulations"), the other party to the Agreements does not appear to have carried out its obligation that:

"The period of his contributory service shall count as pensionable under USSR legislation as if during that period he had been in the public service of the USSR, and the amount paid to the Social Security Fund shall be taken into account in determining the type and amount of his pension benefit in accordance with USSR legislation." 23/ (Emphasis added)

253. The Board can only stress again that, before meaningful progress can be achieved in resolving the problems which have arisen, the three Governments concerned must indicate clearly their readiness to respond in a meaningful manner to the claims of former participants, and to rectify them, in whole or in part.

VIII. OTHER MATTERS

A. Amendments to article 54 of the Regulations

Introduction

254. The Board considered a number of amendments to article 54 of the Fund's Regulations, aimed at clarifying its provisions or eliminating certain lacunae that had been identified by the Board in recent years. The amendments concern the definition of pensionable remuneration of the following categories of participants:

(a) Professional and higher categories;

(b) Ungraded officials;

(c) WHO and ILO staff who have received longevity/merit steps under the staff regulations of those organizations;

(d) United Nations Field Service category.

Pensionable remuneration of staff in the Professional and higher categories

255. The Board decided to recommend amendments to article 54 (b) of the Regulations which would incorporate in appendix B the latest scale of pensionable remuneration for staff in the Professional and higher categories (i.e. the expected 1 November 1994 scale), and delete subparagraphs (i) and (ii) of the present article 54 (b), which related to certain transitional arrangements that are no longer relevant.

Pensionable remuneration of ungraded officials

256. In section III of resolution 46/192 of 20 December 1991, the General Assembly had endorsed the methodology and adjustment procedure recommended by ICSC for determining the pensionable remuneration of officials appointed or elected to ungraded posts who became Fund participants. The Assembly also urged the governing bodies of the Fund's other member organizations to adopt that same methodology and adjustment procedure for their respective ungraded officials who became Fund participants and to inform the Assembly, ICSC and the Board of their actions in that area.

257. In section IV of resolution 47/203 of 22 December 1992, the General Assembly conveyed to the governing bodies of the Fund's other member organizations its view that their ungraded officials should become participants in the Fund so as to ensure system-wide comparability and that, if a governing body decided to make pension arrangements for such officials outside the Fund, only the option currently available in the International Civil Aviation Organization (ICAO) would be appropriate. The ICAO option was described in the ICSC report to the General Assembly at its forty-seventh session. 24/ The Assembly also concurred with the decision of the Board to defer, until its session in 1994, consideration of an amendment to article 54 of the Regulations of the Fund to incorporate provisions governing the pensionable remuneration of ungraded officials, in order to allow time for the governing bodies of all member organizations of the Fund to take up the matters referred to them by the General Assembly.

258. On the basis of information supplied by the member organizations of the Fund, the Board was informed that (a) the executive heads and other ungraded officials, if any, of IAEA, ILO, ITU, UNESCO, UNIDO, WHO, WIPO, WMO, IFAD and GATT (except the Director-General) were participants in the Fund and subject to the methodology approved by ICSC for the establishment and adjustment of their pensionable remuneration (the President of the ICAO Council is a Fund participant and his pensionable remuneration is subject to the methodology approved by ICSC); (b) the executive heads of FAO, IMO and ICAO were not participants in the Fund, with the arrangements applied to them being the so-called "ICAO option"; (c) the current executive head of GATT was not a participant in the Fund, and was the subject of sui generis arrangements approved by the GATT Governing Body, (d) the Secretary-General of the United Nations has never been a participant in the Fund, with his pension arrangements having been established by the General Assembly; and (e) ICCROM and EPPO do not have any ungraded officials.

259. The Board noted that most, if not all, member organizations were adhering to the request made by the General Assembly in resolution 47/203, whether or not the ungraded officials concerned were participants in the Fund. It therefore decided to recommend the addition of the following new paragraph (c) to article 54, so as to define the pensionable remuneration of those ungraded officials who are UNJSPF participants, while respecting fully the acquired rights of the ungraded officials presently in service in the Fund's member organizations:

> "(c) (i) In the case of participants who are appointed or elected as ungraded officials on or after 1 April 1995, their pensionable remuneration shall be established by the competent legislative organ which determines their other conditions of service, in accordance with the methodology recommended by the International Civil Service Commission and endorsed by the General Assembly, and shall be subsequently adjusted in accordance with the procedure in (b) above;
>
> (ii) In the case of participants who are ungraded officials on 31 March 1995, their pensionable remuneration as of that date shall be maintained, without adjustment, until surpassed by the level of pensionable remuneration derived from application of the methodology referred to in (i) above."

Inclusion of references to longevity/merit steps

260. In its resolution 47/203, the General Assembly concurred with the decision taken by the Board in July 1992 to consider in 1994 an amendment to article 54 of the Regulations to incorporate therein provisions governing the longevity/merit steps granted to their staff by some member organizations, namely WHO and ILO.

261. Since the July 1992 session of the Board, both ILO and WHO had taken measures to end the practice of granting steps beyond the top of the common system scales for newly appointed staff (as from 1 January 1994 for the ILO; earlier for WHO) and to phase out, through transitional arrangements, the granting of such steps for serving staff. Therefore, the Board decided to recommend the addition of the following new subparagraph to article 54:

> "No step increments beyond the top step of the applicable gross pensionable salary scale or the scale of pensionable remuneration established in accordance with the methodology approved by the General

Assembly on the recommendation of the International Civil Service Commission shall be recognized as pensionable for participants entering or re-entering the Fund on or after 1 January 1994. Nevertheless, any step increments awarded in conformity with the provisions of the appropriate Staff Regulations or Rules of a member organization to a staff member in service in that Organization before 1 January 1994 shall be accepted by the Fund for both pension contribution and benefit calculation purposes."

Inclusion of definition of pensionable remuneration for United Nations staff in the Field Service category

262. In its resolution 47/203, the General Assembly concurred with the decision of the Board to consider at its present session inclusion in article 54 of a definition of pensionable remuneration for United Nations staff in the Field Service category.

263. Net remuneration of staff in the United Nations Field Service category consists of base salary and post adjustment. The most recent comprehensive review of the remuneration of United Nations Field Service staff, including their pensionable remuneration, was carried out in 1990 by the United Nations, in cooperation with ICSC, and resulted in adoption of a new base salary scale.

264. As a long-standing practice, the scale of pensionable remuneration of United Nations staff in the Field Service category has been established and subsequently adjusted using the same procedures as those applicable to the determination of the pensionable remuneration scale of staff in the Professional and higher categories.

265. Accordingly, the Board decided to recommend to the General Assembly the following addition to article 54 of the Regulations, to cover the pensionable remuneration of staff in the United Nations Field Service category:

"In the case of participants in the United Nations Field Service category, the scale of pensionable remuneration effective 1 November 1994 shall be as set out in appendix C hereto, and shall be subsequently adjusted in accordance with the procedure in (b) above."

266. The full text of the proposed amendment of article 54 of the Regulations is contained in annex XIV below.

B. Procedure for determining final average remuneration

267. At its session in 1992, the Board had requested the Secretary to prepare for its 1994 session a study on the procedure for determining final average remuneration (FAR), particularly in respect of situations where the local currency had depreciated significantly in relation to the dollar.

268. Under article 1 (h) of the Fund's Regulations, FAR is defined as "the average annual pensionable remuneration of a participant during the 36 completed calendar months of highest pensionable remuneration within the last five years of his contributory service". (Situations involving less than five years and/or less than 36 calendar months of contributory service are also dealt with in that article.) Article 1 (q) in turn defines pensionable remuneration as "the remuneration, at its equivalent in dollars, defined in article 54".

269. For staff in the Professional and higher categories, net remuneration (net base salary plus post adjustment) is established in United States dollars and varies by duty station because the applicable post adjustment amounts at each duty station can increase or decrease according to inflation rates and exchange rate changes. However, there is a separate, universal dollar scale of pensionable remuneration for Professional and higher category staff (which is currently based on the net remuneration at the base of the system, New York). As the levels of pensionable remuneration are not affected by exchange rate changes, FAR for Professional staff is almost always the average of the last 36 months of pensionable remuneration, the rare exceptions being cases involving demotion to a lower grade during the last years of contributory service.

270. For staff in the General Service and related categories, however, the salaries and other elements of remuneration are determined in local currency, in accordance with the best prevailing conditions of employment at the duty station. The pensionable remuneration of such staff is defined in article 54 (a) as the equivalent in dollars of the sum of their gross pensionable salary and pensionable allowances, if any. The conversion from local currency into dollars is made by using the United Nations operational rate of exchange for the month to which the salary relates. The dollar pensionable remuneration of General Service staff serving at duty stations outside the United States will therefore increase or decrease with every fluctuation in the exchange rate between the dollar and the local currency. Consequently, at duty stations where the local currency depreciated in relation to the dollar during the last years of contributory service, the best 36 months of pensionable remuneration during the last five years may not be those for the last 36 months before separation from service.

271. At its July 1994 session, the Board examined data on exchange rates (spot rates and 36-month average rates) and FAR levels at the seven headquarters duty stations and at six other duty stations in respect of separations in each quarter of the years 1990 to 1994, as well as the consequent pension levels, in dollars and in local currencies, for a G-5 step 10 staff member at each of those locations. The pension results were compared with those under three alternative arrangements for determining FAR and for selecting the exchange rates to be used to calculate the local currency pension amounts. The variations in the comparisons as among the duty stations and over time underscored the inherent difficulties in drawing any consistent conclusions or general principles that could guide the search for appropriate changes in the current arrangements. None of the alternatives provided uniformly advantageous results for staff in countries where wide currency fluctuations, including both appreciations and depreciations, occurred. Steep devaluations in currency exchange rates were frequently followed by salary increases (albeit with some delay), which tended to ameliorate the problem of a declining FAR.

272. The participants' representatives stated that a further alternative should have been examined, namely defining FAR as the best 36 months of pensionable remuneration over the entire career of the participant. One participants' representative cited cases where staff retiring at later dates with more contributory service were receiving lower dollar pensions than those who retired earlier with similar or shorter service records.

273. Several members representing the General Assembly and a member representing an executive head stated that they did not see any principle which could be cited as a basis for changing the current system of determining FAR. These members preferred to retain the current procedure in the Fund's Regulations for establishing FAR.

274. In the absence of a consensus for changing the current arrangements for determining FAR, the Board requested the Secretary to prepare a further study on this matter, taking into account the proposals put forward during the discussions, and to report thereon to the Board at its next regular session in 1996.

C. Admission to membership in the Fund of the International Centre for Genetic Engineering and Biotechnology

275. The Board considered an application for membership in the Fund from the International Centre for Genetic Engineering and Biotechnology (ICGEB), a new international and intergovernmental organization with headquarters in Trieste, Italy and New Delhi. The current membership of ICGEB consists of 32 States. It is administered by a Governing Board composed of representatives of all its Member States, and its secretariat has at present 147 staff members.

276. The statutes of the Centre entered into force in February 1994; prior to that time, the Centre operated as a programme of UNIDO. The Centre's staff are currently Fund participants under UNIDO employment contracts; they will continue to have that status until 1 January 1996, when they will receive ICGEB contracts. Therefore, if the Centre's application for membership in the Fund were approved, its staff members would remain Fund participants after 1 January 1996, without any interruption.

277. The requirements for membership in the Fund are set out in article 3, paragraphs (b) and (c), of the Regulations, which provide that:

> "(b) Membership in the Fund shall be open to the specialized agencies referred to in article 57, paragraph 2, of the Charter of the United Nations and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.
>
> "(c) Admission to membership in the Fund shall be by decision of the General Assembly, upon the affirmative recommendation of the Board, after acceptance by the organization concerned of these Regulations and agreement reached with the Board as to the conditions which shall govern its admission."

278. The Board noted that the Centre met the requirement in article 3 (b) of the Fund's Regulations, as it was clearly an international, intergovernmental organization. The only issue under article 3 (b) concerned the determination whether the Centre "participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies." The ICGEB Governing Board had confirmed that the Organization would adhere to the common system of salaries and conditions of service and that it would be bound by the UNJSPF Regulations and Rules; however, at the time of the Board session, a set of staff regulations had not yet been approved. Nevertheless, as the proposed date for its admission to membership in the Fund was 1 January 1996, the Board agreed to make a conditional favourable recommendation to the General Assembly, under article 3 (c) of the Fund's Regulations, for admission of ICGEB to the Fund, subject to verification before the proposed entry date by the Secretary of the Board, after consultation with the ICSC Secretariat, that the staff regulations, rules and salary scales eventually adopted by ICGEB conformed to the common system of salaries and other

conditions of service. The Board decided to follow this course as otherwise the application for membership could be considered by the General Assembly only in 1996, because of the biennialization of the work programme of the Fifth Committee, and that would necessarily entail an interruption in UNJSPF participation for the staff of the Centre.

279. The Board therefore decided to recommend to the General Assembly that ICGEB be admitted as a member organization of the Fund effective 1 January 1996, subject to its adoption before that date of staff regulations, rules and salary scales which conform to the common system of salaries and other conditions of service.

D. Composition of the Board and Standing Committee

280. In its resolution 46/192 of 20 December 1991, the General Assembly, inter alia, noted the Board's recommendation that "no change be made in the composition of the Board at the present time, and request[ed] the Board to keep this matter under review and to submit a further report thereon to the General Assembly at its forty-eighth session". As the Board did not have a regular session in 1993, it considered the matter at the July 1994 session.

281. The Board recalled that the primary objective of changing the size of the Board from 21 to 33 members as from 1 January 1989 had been to increase the representation of the expanded membership of the Fund and, in particular, the representation of the United Nations General Assembly. On the earlier 21-member Board the United Nations had had six members, with two members (and their alternates) representing the General Assembly. The United Nations now has 12 members on the 33-member Board, with four members and four alternate members representing the General Assembly.

282. The Board also noted that its recent practice has been to reach decisions and make recommendations to the Assembly by consensus; this may have lessened, if not eliminated, the need and urgency that some had felt in the past to consider a further increase in the representation of the United Nations and/or of the General Assembly. Since the Board adopted, in 1987, the practice of taking substantive decisions by consensus, all of its recommendations have been approved by the General Assembly.

283. The Board therefore decided not to propose any changes at the present time in the size and composition either of the Board or its Standing Committee, but to keep the subject under review. The Board would submit a further report on this matter to the Assembly at a future session (e.g. the fifty-third session, in 1998).

284. The Board also considered a number of issues related to attendance at Board sessions and Standing Committee meetings, as well as the frequency of Standing Committee meetings:

(a) Attendance at Board sessions

285. Rule A.9 of the Rules of Procedure, which limits attendance at Board sessions, had been adopted in 1988 in response to concerns expressed in the General Assembly regarding the number of persons attending Board sessions and the costs thereof. While there had been occasional requests for flexibility in applying Rule A.9, it had generally been interpreted strictly by the Board.

286. The observers for CCISUA and FICSA, supported by a number of participants' representatives, requested reconsideration of the provision of Rule A.9 that only one observer for each organization might attend Board sessions; they suggested that, as a minimum, rotation of several individuals in an observer seat during a session should be permitted and that, in addition, a technical adviser should be permitted to accompany the observer. Several members of the Board were of the opinion, however, that in view of the tripartite nature of the Board and the specific role accorded participants' representatives, such additional representation for staff associations was not necessary. As there was no general consensus for amending the Rule in question, the Board decided not to make any changes in the Rules of Procedure or in their interpretation.

(b) Frequency of meetings of the Standing Committee

287. The Board noted that the appeals procedure established under Section K of the Fund's Administrative Rules had been criticized for slowness, since it could take up to a year for a case to be reviewed by the Standing Committee. Under current arrangements, the Committee met only once a year, either during a Board session, or in lieu of the Board, in alternate years. The Board agreed that a second meeting of the Standing Committee could be convened in January or February in any year, if there were appeal cases pending. This decision did not require a revision of the Rules of Procedure since rule B.6 already provided that "Meetings of the Standing Committee shall be convened by the Secretary upon the instructions of the Chairman, after consultation with its members."

(c) Attendance at meetings of the Standing Committee

288. In order to minimize the costs of any additional meetings of the Standing Committee that would be convened solely to deal with review and appeal cases under section K of the Administrative Rules, the Board agreed that attendance at such meetings should be limited to members, or in case a member was unable to attend, an alternate for each such member. It therefore approved the following additional subparagraph to rule B.9 of the Fund's Rules of Procedure:

> "In cases where the agenda of a meeting of the Standing Committee is limited to consideration of review and appeal cases under section K of the Administrative Rules, attendance shall be limited to members and any alternate member attending in the absence of a member."

289. As for attendance at meetings of the Standing Committee in years when there was no Board session, the Board recalled that, at its forty-fourth session, in 1992, it had considered modifying the rules governing attendance at meetings of the Standing Committee in order to make it possible for all three groups represented in the staff pension committees of the member organizations to attend such meetings. The Board had decided at that time not to amend rule B.9 (c), but to authorize instead an exception to that rule in respect of the expected 1993 meeting of the Standing Committee. Under that exception, a member organization could send one representative in addition to those already authorized to attend under rule B.9 (c), subject to the condition that the additional representative belonged to a constituent group within the staff pension committee of the organization which was not entitled to have a member, alternate member or representative attend the meeting of the Standing Committee. The additional representatives would be designated by their respective staff pension committees. The Board decided therefore to incorporate the following subparagraph in rule B.9 of the Rules of Procedure:

"In any year when the Board does not sit in regular session, attendance at the meeting of the Standing Committee which is held in lieu of the session of the Board shall be as provided above, with the addition of an extra representative from each organization who belongs to a group referred to in B.8 above which is not otherwise entitled to a member, alternate or representative at that meeting."

290. In connection with the above amendments of the Rules of Procedure, set out above in paragraphs 288 and 289, the Secretary was requested to prepare a comprehensive study, for the consideration of the Board at its session in 1996, on all aspects of the question of attendance at meetings of the Standing Committee, including in particular possible alternative approaches to dealing with review and appeal cases under section K of the Administrative Rules so as to ensure that they were dealt with more expeditiously than at present.

E. Administrative expenses

291. In section III of resolution 48/225 of 23 December 1993, the General Assembly approved expenses, chargeable to the Fund, totalling $39,291,900 (net) for the biennium 1994-1995, for the administration of the Fund. This amount comprised $12,609,200 for administrative costs and $26,682,700 for investment costs.

292. Article 15 (b) of the Fund's Regulations provides inter alia that "supplementary estimates may ... be submitted in the first and/or the second year of the biennium to which the budget relates".

293. Pursuant to article 15 (b), the Board decided to submit revised estimates for 1994-1995 amounting to $39,682,100. The increase of $390,200 over the estimates for the biennium approved last year relates exclusively to administrative costs, and consists of $315,200 for temporary assistance resources, $25,000 for travel and related costs and $50,000 for data processing costs.

Temporary assistance

294. In its budget proposals last year, the Board noted that the Fund secretariat was experiencing "serious difficulties in coping, in a timely manner, with both the changes in work methods brought about by the new computer systems and the processing of the heavy volume of day-to-day correspondence and inquiries. As a result, significant backlogs of work must be systematically reduced before the secretariat can begin to reap the benefits of the new systems". 25/

295. During the past year considerable progress has been made in addressing the backlog of work. However, other events have served to increase the workload of the secretariat and to exacerbate the backlog problem. These events include (a) the increase in the number of participants entering and leaving the Fund as a consequence of expanded United Nations peace-keeping, humanitarian and development operations; (b) the reductions of staff in a number of organizations; (c) the need to address unexpected and urgent problems involving currency issues, such as the impact of the devaluation of the CFA franc and of other currencies; and (d) more recently, the need to recalculate the pension benefits of a large number of former Geneva-based General Service staff as a result of retroactive revisions of the 1991, 1992 and 1993 General Service

salary scales at Geneva, in response to a judgement of the ILO Administrative Tribunal.

296. As a consequence of the salary scale revisions at Geneva and at other locations it is estimated that some 850 benefits will have to be recalculated and adjusted retroactively. These recalculations will have to be done, for the most part, manually; they will involve, in addition to the recalculation of the initial entitlement, the tracing of historical payment data and the calculation of the retroactive adjustments due for each period, taking into account the rates of exchange in effect when each monthly payment was originally made. The Fund will establish a task force for this purpose and carry out most of the work at its Geneva office. With this in mind, one senior general service staff member will be redeployed from New York to Geneva, for a period of up to four months, to train the Geneva staff in the retirement benefit calculation procedures. This training will also serve to facilitate and expedite the planned phased expansion of the role of the Geneva office in servicing the Fund's participants and beneficiaries in Europe.

297. It is estimated that the equivalent of three temporary assistance posts will be required for the balance of the biennium: (a) to complete the major unanticipated task cited in the preceding paragraph; and (b) to reduce significantly other work backlogs. The bulk of the temporary assistance funds would be allocated initially to the Geneva office, to assist in processing most of the benefit recalculations. The balance of the additional resources requested would be utilized in New York, to cover the void created by the temporary redeployment of staff to Geneva and to provide assistance to the Pension Entitlements Section in coping with its general backlog-reduction project.

298. The cost of the additional temporary assistance resources would amount to $315,200; any unspent balance at the end of 1995 would be surrendered.

Travel of staff

299. To accommodate the travel costs for the temporary redeployment of staff from New York to Geneva, mentioned in paragraph 296 above, additional resources amounting to $25,000 would be required.

Acquisition of data processing equipment

300. The process of eliminating the backlog of work and expanding the role of the Geneva office in the area of calculating, processing and paying benefits, demands that historical payroll and accounting data currently maintained in hard copy ledgers or on microfiche be transferred to an on-line computer environment. The Fund has tested on a trial basis new computer equipment, i.e. a network server which would provide the resources required to store and display this historical data. The intention had been to acquire this equipment during the next biennium as part of the ongoing enhancements to the current systems. However, in view of the urgent need to provide the Geneva office with certain data files required for the retroactive recalculations described in paragraph 296 above, the Board agreed that it would be in the best interest of efficiency to purchase the required equipment at this time. In addition, three personal computers and one printer would be required for the Geneva office to support the additional staff required for the project. These computers and the printer would be retained by the Geneva office on a permanent basis to support its operations as its role expands in the future. To acquire the above equipment, additional resources amounting to $50,000 would be required.

301. As indicated in paragraph 293 above, the total additional resources requested for the biennium 1994-1995 amount to $390,200, as reflected in annex VIII, table 1. No additional resources will be required in connection with investment costs.

F. Emergency Fund

302. The Emergency Fund was initially established by the Board in 1973 from voluntary contributions of member organizations, staff associations and individual contributors to alleviate the distress of recipients of small pensions, caused by currency fluctuations and cost-of-living increases. Since the introduction of the pension adjustment system in 1975, it has been used to provide relief in individual cases of proven hardship owing to illness, infirmity or similar causes.

303. The General Assembly had authorized the Board to supplement voluntary contributions to the Emergency Fund by up to $200,000 for the biennium 1992-1993. During the period 1 May 1993 to 30 April 1994, there were 23 disbursements totalling $35,671. The amounts disbursed over the two-year period, 1 May 1992 to 30 April 1994, totalled $48,365. Total expenditures since 1975 have reached $606,672.

304. As in the past, the bulk of the disbursements has been to assist in the payment of medical expenses, including hospitalization, and related expenses not reimbursable from other sources. In all cases involving claims for medical expenses not covered by the after-service medical insurance schemes of the member organizations, prior advice of the medical consultant was obtained.

Notes

1/ Official Records of the General Assembly, Forty-sixth Session, Supplement No. 9 (A/46/9), paras. 61-65.

2/ Ibid., Forty-seventh Session, Supplement No. 9 (A/47/9), paras. 28-39.

3/ Ibid., Forty-eighth Session, Supplement No. 9 (A/48/9), paras. 119-129.

4/ See Regulations and Rules of the United Nations Joint Staff Pension Fund (JSPB/G.4/Rev.14).

5/ Ibid., Forty-sixth Session, Supplement No. 9 (A/46/9), paras. 12-26.

6/ Ibid., Forty-eighth Session, Supplement No. 9 (A/48/9), paras. 105-113.

7/ Ibid., paras. 107-109.

8/ Ibid., paras. 114-118.

9/ Ibid., Forty-sixth Session, Supplement No. 9 (A/46/9) paras. 30-39.

10/ Ibid., paras. 40-53.

11/ Ibid., paras. 41-46.

12/ A/48/517, para. 17.

13/ Official Records of the General Assembly, Forty-seventh Session, Supplement No. 9 (A/47/9) paras. 86-105.

14/ Ibid., Forty-sixth Session, Supplement No. 9 (A/46/9), para. 175.

15/ Ibid., para. 176.

16/ Ibid., Thirty-ninth Session, Supplement No. 9 (A/39/9), para. 43.

17/ Ibid., Forty-seventh Session, Supplement No. 9 (A/47/9), para. 99.

18/ Ibid., Forty-ninth Session, Supplement No. 30 (A/49/30), chap. III, part A, paras. 14-29.

19/ Ibid., Thirty-fifth Session, Supplement No. 9 (A/35/9), para. 37.

20/ Ibid., Forty-sixth Session, Supplement No. 9 (A/46/9), para. 175.

21/ Ibid., Forty-eighth Session, Supplement No. 9 (A/48/9), para. 64.

22/ Ibid., Forty-seventh Session, Supplement No. 9 (A/47/9), paras. 101-105.

23/ See United Nations Joint Staff Pension Fund Agreements on transfer of pension rights (JSPB/G.13, article IV of the Agreement between the Fund and the former USSR).

24/ Official Records of the General Assembly, Forty-seventh Session, Supplement No. 30 (A/47/30), para. 64.

25/ Ibid., Forty-eighth Session, Supplement No. 9 (A/48/9), para. 79.

ANNEX I

Statistics on the operations of the Fund for the year ended 31 December 1993

Table 1. Number of participants as at 31 December 1993

Member Organization	Participants as at 31 December 1992	New entrants	Transfers		Separations	Participants as at 31 December 1993
			in	out		
United Nations	34 748	5 132	138	(101	(2 844)	37 073
ILO	3 345	352	18	(35)	(496)	3 184
FAO	6 896	527	27	(38)	(811)	6 601
UNESCO	2 770	143	10	(17)	(243)	2 663
WHO	6 336	555	23	(27)	(729)	6 158
ICAO	942	60	5	(3)	(115)	889
WMO	416	33	3	(5)	(58)	389
GATT	438	33	4	(5)	(29)	441
IAEA	1 984	139	10	(14)	(118)	2 001
IMO	328	17	3	(1)	(16)	331
ITU	939	68	9	(7)	(117)	890
WIPO	472	45	5	(2)	(26)	494
IFAD	276	24	5	(4)	(7)	294
ICCROM	30	0	0	0	(2)	28
EPPO	10	0	0	(1)	0	9
UNIDO	2 038	124	28	(28)	(278)	1 884
TOTAL	61 968	7 250	288	(288	(5 889)	63 329

Table 2. Benefits awarded to participants or their beneficiaries during the year ended 31 December 1993

Member Organization	Retirement benefit	Early retirement benefit	Deferred retirement benefit	Withdrawal Settlement		Child's benefit	Widow's and widower's benefits	Other death benefit	Disability benefit	Secondary dependant's benefit	Transfer under agreements	Total
				under 5 years	over 5 years							
United Nations	351	193	71	1 665	362	517	70	12	22	1	4	3 268
ILO	41	48	24	316	45	37	6	2	5	0	1	525
FAO	103	89	41	443	106	125	10	2	10	1	1	931
UNESCO	56	32	20	93	30	38	4	1	5	0	0	279
WHO	89	42	14	308	247	145	16	1	3	0	4	869
ICAO	19	11	6	61	15	12	1	1	0	0	0	126
WMO	11	0	1	42	3	1	0	0	0	0	0	58
ICITO	10	0	1	12	2	1	1	0	1	0	2	30
IAEA	24	6	10	49	23	6	3	2	1	0	0	124
IMO	6	2	1	5	2	1	0	0	0	0	0	17
ITU	27	9	4	72	4	10	0	0	0	0	1	127
WIPO	6	2	0	17	1	1	0	0	0	0	0	27
IFAD	1	0	2	3	1	0	0	0	0	0	0	7
ICCROM	0	0	0	2	0	0	0	0	0	0	0	2
EPPO	0	0	0	0	0	0	0	0	0	0	0	0
UNIDO	19	16	12	196	27	22	2	0	2	0	0	296
TOTAL	763	450	207	3 284	868	916	113	21	49	2	13	6 686

Table 3. Analysis of periodic benefits as at 31 December 1993

Participants or their beneficiaries

Type of benefit	Total as at 31 December 1992	New	Benefits discontinued, resulting in award of survivor's benefit	All other benefits discontinued	Total as at 31 December 1993
Retirement	11 264	762	(205)	(133)	11 688
Early	6 093	452	(89)	(29)	6 427
Deferred	5 598	207	(27)	(42)	5 736
Widow	4 378	106	311	(75)	4 720
Widower	214	15	21	(7)	243
Disability	642	51	(14)	(10)	669
Child	5 679	916	0	(699)	5 896
Secondary	55	2	3	(4)	56
Total	**33 923**	**2 511**	**0**	**(999)**	**35 435**

ANNEX II

Audit opinion, financial statements and schedules for the year ended 31 December 1993

A. Audit opinion

We have examined the appended financial statements, numbered I and II, properly identified, and the relevant schedules numbered 1 to 4 and the supporting explanatory notes of the United Nations Joint Staff Pension Fund for the financial period ended 31 December 1993, in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Our examination included a general review of the accounting procedures and such tests of the accounting records and such other supporting evidence as we considered necessary in the circumstances.

We did not physically inspect and count the securities of the investments account amounting to US $11,030,645,394 held by an independent custodian as at 31 December 1993. These securities were examined by other independent auditors whose reports thereon have been furnished to us and our opinion expressed herein in so far as it relates to the investments account, is based solely upon the report of these auditors.

As a result of our examination and the report of other auditors referred to above, we are of the opinion that the financial statements present fairly the financial position of the Pension Fund as at 31 December 1993 and the results of the operations for the financial period then ended; that they were prepared in accordance with the stated accounting policies, which were applied on a basis consistent with that of the preceding financial period; and that the transactions were in accordance with the Financial Regulations and legislative authority.

In accordance with our usual practice, we have issued a long form report on our audit of the United Nations Joint Staff Pension Fund's financial statements as provided for in the Financial Regulations.

(Signed) Sir John BOURN
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

(Signed) Osei Tutu PREMPEH
Auditor-General of Ghana

(Signed) Codanda Ganapathy SOMIAH
Comptroller and Auditor General
of India

1 August 1994

B. United Nations Joint Staff Pension Fund

Note on the financial statements for the year ended 31 December 1993

Summary of significant accounting policies

The following are some of the significant accounting policies of the United Nations Joint Staff Pension Fund.

1. Investments

Investments are recorded at cost using commercial historical exchange rates instead of United Nations operational rates exchange. Interest income and dividends are recorded on an accrual basis and foreign taxes withheld are recorded as receivables. Foreign cash is revalued at year end and a gain or loss realized.

The 1992 foreign tax accounts receivable figure was reduced by an "allowance for doubtful accounts" ($4,863,800): at the request of the Pension Board, the concept of "doubtful accounts" which had not been used prior to 1992 in financial statements, has been eliminated and therefore not reflected in the 1993 figure.

2. Contributions

Contributions received from participants, member organizations and other funds are recorded on an accrual basis.

3. Benefits

Payment of benefits including withdrawal settlements, is recorded on an accrual basis.

4. Principal of the Fund

The principal of the Fund represents the active participants' contributions plus interests, together with the balance of equity of the Fund.

5. Emergency Fund

Appropriation is recorded when the authorization is approved by the General Assembly; payments are charged directly against the appropriation account; any unexpended balance is reverted to the Pension Fund at the end of the year.

6. Administrative Expenses

In accordance with article 15(b) of the UNJSPF Regulations, the administrative expenses of the Fund are estimated and approved on a biennial basis.

STATEMENT I

Statement of assets and liabilities as at 31 December 1993 with comparative figures as at 31 December 1992

(United States dollars)

Assets		1993	1992
Cash in banks		8 674 995	15 003 127
Investments (schedules 2 & 3)			
Temporary investments - at cost (market value: 610 976 398)	608 731 395		
Bonds - at cost (market value: 4 310 176 754)	4 038 736 898		
Stock and convertible bonds - at cost (market value: 7 088 838 223)	5 480 483 968		
Real estate and related securities at cost (market value: 792 328 201)	902 693 133	11 030 645 394	10 097 729 866
Contributions receivable from member organizations		27 018 245	32 924 255
Accounts receivable		886 966	440 205
Foreign tax accounts receivable (schedule 4)		7 559 698	4 199 496
Accrued income from investments		139 382 107	117 151 384
Receivable from investments sold		25 117 286	1 712 264
Prepaid benefits & expenses		10 981 784	11 310 872
TOTAL		11 250 266 475	10 280 471 469
Liabilities and principal of the Fund			
Benefits payable		23 658 516	18 606 103
Payable for securities purchased		58 720 466	9 374 469
Other accounts payable		7 283 882	5 641 153
Principal of the Fund		11 160 603 611	10 246 849 744
Total		11 250 266 475	10 280 471 469

Certified correct:

(signed) Yukio TAKASU
Assistant Secretary General, Controller
Representative of the Secretary-General for the Investments of the United Nations Joint Staff Pension Fund
(for investments of the Fund only)

(signed) Raymond GIERI
Secretary
United Nations Joint StaffPension Board

STATEMENT II

Statement of source and application of funds for the year ended 31 December 1993 with comparative figures for the year ended 31 December 1992

(United States dollars)

Source of funds	1993	1992
Participants:		
Contributions under article 25(a)	227 310 332	224 084 113
Additional contributions with interest to make prior service contributory	545 001	479 358
Repayment of benefits with interest to restore prior contributory service	2 151 422	2 476 670
	230 006 755	*227 040 139*
Member organizations:		
Contributions under article 25(a)	454 620 664	448 168 226
Additional contributions with interest to make prior service contributory	1 209 419	1 167 616
	455 830 083	*449 335 842*
Amounts received from non-member organizations for participants transferred under agreements	256 382	188 499
Receipts of excess actuarial cost over regular contributions with interest to make prior service contributory	170 626	65 431
Investment income:		
Interest earned	369 541 027	357 329 066
Dividends	158 110 563	133 317 174
Real estate and related securities	40 013 290	41 533 230
Profit (net) on sales of investments	326 243 098	354 646 665
Doubtful accounts expenses		(254 271)
Prior period adjustments		13 307 030
	893 907 978	*899 878 894*
Total	1 580 171 824	1 576 508 805

STATEMENT II (continued)

(United States dollars)

Application of funds	1993	1992
Payment of benefits:		
Withdrawal settlements and full commutation of benefits	39 582 739	35 061 872
Retirement benefits	317 731 049	304 458 861
Early and deferred retirement benefits	206 544 333	198 259 483
Disability benefits	15 948 104	15 275 700
Death benefits (other than to children)	56 221 322	53 924 872
Children's benefits	9 169 471	8 810 642
Loss (gain) on exchange	(75 095)	(913 368)
	645 119 923	*614 878 062*
Amounts remitted to non-member organizations and Governments for participants transferred under agreements	1 022 409	1 290 077
Administrative expenses:		
Administrative costs	6 051 452	6 813 822
Investment costs chargeable to gross income from investments	13 827 607	12 884 664
	19 879 059	*19 698 486*
Emergency Fund	17 429	13 009
Adjustments to prior year benefits (net)	379 137	(1 239 288)
Transferred to principal of the Fund	913 753 867	941 868 459
Total	1 580 171 824	1 576 508 805

Certified correct:

(signed) Raymond GIERI, Secretary
United Nations Joint Staff Pension Board

SCHEDULE 1

Schedule of administrative expenses for 1993 and 1992 *(United States dollars)*

Administrative costs	1993	1992
Established posts	2 988 703	2 800 817
Overtime and temporary assistance	149 518	122 638
Common staff costs	1 054 347	1 022 728
Training	2 596	10 047
Actuarial consulting services	218 039	174 481
Consultants	48 948	2 389
Travel of staff	29 647	44 132
Committee of actuaries	37 812	29 720
Data processing costs	1 419 584	2 532 148
External audit	18 240	13 380
Computer services rendered by the United Nations	20 000	20 000
Communications services	5 000	5 000
Hospitality	5 223	4 558
Miscellaneous charges	75 795	32 024
Total	6 061 452	6 813 822

Investments costs	1993	1992
Established posts	1 031 452	792 811
Overtime and temporary assistance	114 312	48 312
Common staff costs	403 535	316 315
Training	8 721	3 895
Custodial services and investment counsel	11 481 977	11 123 256
Consultants	51 382	27 254
Travel of staff	60 867	44 759
Investments committee	92 050	169 881
Data processing costs	271 448	11 755
Communications services	12 218	8 153
Hospitality	703	829
Miscellaneous charges	171 288	111 868
Bank charges	127 648	225 778
Total	13 827 607	12 884 684

SCHEDULE 2

Summary statement of investments as at 31 December 1993

(Thousands of United States dollars)

Investments	Balances - at cost*		1993 income		
	1 January 1993	31 December 1993	Profit or (loss) on sales	Dividends, interest, or income	Total
Bonds (United States dollars)	1 385 798	1 390 606	52 473	114 154	166 627
Stocks and convertible bonds (United States dollars)	1 835 409	2 086 345	49 170	65 598	114 768
Bonds (other currencies)	2 530 640	2 648 131	131 661	233 878	365 539
Stocks and convertible bonds (other currencies)	2 823 777	3 394 139	109 136	92 512	201 648
Real estate and related securities (United States dollars and other currencies)	859 869	902 693	(3 771)	40 013	36 242
Temporary investments (United States dollars)	446 812	437 880	(8)	12 240	12 232
Temporary investments (other currencies)**	215 425	170 871	(12 418)	9 270	(3 148)
Total portfolio	10 097 730	11 030 645	326 243	567 695	893 908

*Cost value adjusted to reflect year-end adjustments.
**Call accounts are included.

SCHEDULE 3

Comparison of cost value and market value of investments as at 31 December 1993 and 31 December 1992

(Thousands of United States dollars)

Investments	31 December 1992			31 December 1993		
	Cost*	Percentage of total cost value	Market value*	Cost*	Percentage of total cost value	Market value*
Bonds (United States dollars)	1 385 798	13.7	1 493 290	1 390 606	12.6	1 499 030
Stocks and convertible bonds (United States dollars)	1 835 409	18.2	2 442 444	2 036 345	18.9	2 665 506
Bonds (other currencies)	2 530 640	25.1	2 544 743	2 648 131	24.0	2 811 147
Stocks and convertible bonds (other currencies)	2 823 777	28.0	2 758 182	3 394 139	30.8	4 423 333
Real estate and related securities (United States dollars and other currencies)	859 869	8.5	796 843	902 693	8.2	792 328
Temporary investments (United States dollars)	446 812	4.4	446 761	437 860	4.0	439 361
Temporary investments (other currencies)	215 425	2.1	215 413	170 871	1.5	171 615
Total portfolio	10 097 730	100.0	10 697 676	11 030 645	100.0	12 802 320

* Cost and Market values adjusted to reflect year-end adjustments

SCHEDULE 4

Summary of Foreign Tax Accounts Receivable as at 31 December 1993

		Local Currency						Exchange rate in effect 31 December 1993	Equivalent in United States dollars
		Prior to 1990	1990	1991	1992	1993	Totals		
Austria	AS					1 656 250	1 656 250	12.195000	135 814
Belgium	BF				440 000		440 000	36.186000	12 159
Chile	$US					6 601	6 601	1.000000	6 601
Germany	DM					312 600	312 600	1.739000	179 759
India	£	46 075	18 740	17 838		3 165	85 818	0.676727	126 814
Italy	Lit	899 618 018	217 665 114	161 119 161			1 278 402 293	1 713.000000	746 294
Malaysia	$M	218 259	275 249		1 207 440	1 070 811	2 771 559	2.695500	1 028 217
	$S	11 685	473 568		93 967	116 830	696 051	1.610000	432 330
Mexico	Mex	644 962					644 962	3.107000	207 584
	$US	33 877	80 310	20 724	24 380	53 108	212 399	1.000000	212 399
Netherlands	FL					32 625	32 625	1.942800	16 793
New Zealand (Small Cap)	$NZ					10 127	10 127	1.788671	5 668
Philippines	P	768 750				54 000	822 750	27.500000	29 489
	$US	11 417	9 678	9 682	17 866	15 838	64 481	1.000000	64 481
Singapore	$S		3 465		649 011	646 400	1 298 876	1.610000	806 755
	$M					30 240	30 240	2.695500	11 219
Spain	Ptas	261 361 508	76 534 693	56 503 585	22 564 539		416 964 305	143.050000	2 914 815
Switzerland	SwF			(735)		730 002	729 267	1.486000	490 758
United Kingdom of Great Britain and Northern Ireland	£					89 158	89 158	0.676727	131 748
							Total amount outstanding		7 558 898

ANNEX III

Report of the Board of Auditors to the General Assembly on the accounts of the United Nations Joint Staff Pension Fund for the year ended 31 December 1993

Introduction

1. The Board of Auditors has audited the financial statements of the United Nations Joint Staff Pension Fund (UNJSPF) for the period 1 January 1992 to 31 December 1993 in accordance with General Assembly resolution 74(I) of 7 December 1946 and article 14 of the Regulations of the UNJSPF. The audit has been conducted in conformity with article XII of the Financial Regulations and Rules of the United Nations and the annex thereto, and the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These standards require that the Board plans and performs the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the biennium 1992-1993 had been incurred for the purposes approved by the governing bodies; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations; and whether the financial statements of UNJSPF presented fairly the position as at 31 December 1993. The audit included a general review of financial systems and internal controls; and a test examination of accounting records and other supporting evidence, to the extent the Board considered necessary to form an opinion on the financial statements. The audit was carried out at the secretariat of the Pension Board and the Investment Management Service at the United Nations in New York.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under regulation 12.5 of the UN Financial Regulations and Rules. The reviews concerned the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of UNJSPF.

4. During the period under review, the Board continued its practice of reporting the results of specific audits through management letters containing detailed observations and recommendations to the Administration. This practice helped in maintaining an ongoing dialogue with the Administration on audit issues.

5. The present report covers matters, which in the opinion of the Board, should be brought to the attention of the Pension Board and the General Assembly. The Board's observations and conclusions were discussed with the Administration whose views, where appropriate, have been reflected in this report. The report is divided into two parts covering the audit of financial statements and management issues, respectively.

Overall results

6. The Board's examination revealed no weaknesses or errors considered material to the accuracy, completeness or validity of the financial statements as a whole. Accordingly the Board has placed an unqualified opinion on the financial statements of the Fund.

Follow-up on actions taken on previous audit recommendations

7. Pursuant to paragraph 15 of General Assembly resolution 47/211 of 23 December 1992, the Board has reviewed measures taken to implement its previous audit recommendations. Most of the previous recommendations of the Board were effectively implemented by the Administration. In cases where further actions are required these have been discussed in the annex to the present report.

Summary of recommendations

8. The Board recommends that the following corrective actions, presented in order of priority, be taken:

(a) Consideration should be given to formally designating the Office of Inspections and Investigations as the internal auditors of the Fund or alternative arrangements be made for a separate internal audit function for the overall activities of the Fund (see para. 64);

(b) The present procedures for verifying Certificates of Entitlement of widows/widowers for continuing eligibility for benefit should be improved. Also, to serve as a deterrent, consideration should be given to the need to request widows/widowers to submit every two years notarized affidavits to the effect that they have not remarried (see para. 38);

(c) To obtain all the benefits accorded UN organizations, the Administration should continue to encourage the defaulting countries to acknowledge the tax-exempt status of the investments of UNJSPF (see para. 58).

Summary of findings

9. The results of the twenty-second actuarial valuation of the Pension Fund as at 31 December 1993 were presented in dollar terms, as well as in the form of percentages of pensionable remuneration (see para. 23).

10. The financial statements of the Pension Fund did not include a statement of changes in financial resources of the Fund and the value of its non-expendable property holdings (see para. 29).

11. As of 31 December 1993, about 50 per cent of the total overpayments made to beneficiaries related to benefits paid to a surviving spouse (see paras. 30 and 35).

12. In a few cases, the monthly pension benefits paid to beneficiaries on the local currency track were found to be significantly higher than what was paid to those on the dollar track (see para. 47).

13. Delays in resolving discrepancies by participating organizations and the untimely receipt of separation documents contributed to the delay in the payment of pension benefits (see paras. 50 and 52).

14. Tax exempt status has not been granted to the Pension Fund by some countries which consider the Fund's investments as commercial and a profit-making activity (see paras. 56 and 59).

15. The scope of the Internal Audit Division's audit of the Pension Fund's activities appeared to have been limited to investments and pension benefits relating to United Nations staff members only (see paras. 61 and 62).

Part I: Financial statement

Accounts and financial reporting

Presentation of results of the 1990 actuarial valuation

16. The results of the actuarial valuation as of 31 December 1990 disclosed a deficiency or an imbalance of 0.57 per cent based on 3-20 year participant growth assumptions. In both the valuation report of the Consulting Actuary and the report of the Committee of Actuaries, the actuarial valuation results are presented in terms of percentages of pensionable remuneration, i.e. the required rate of contribution and the consequential surplus or deficit as measured against the current rate of contribution.

17. During discussions of the results of the 1990 actuarial valuation at the Fifth Committee three delegations had referred to the need to present the results of the valuations in dollar terms. Responding to this suggestion, the Chairman of the Pension Board explained that because of the large swings in the dollar amounts which would result from the application of different sets of economic assumptions, the citing of a single amount in the financial statements could lead to misunderstandings and misinterpretations as to the financial solvency of the Fund.

18. The General Assembly in section II of its resolution 47/203 requested the Pension Board "to consider the form in which it presents the results of actuarial valuations, taking into account the views of the Committee of Actuaries and of the Board of Auditors".

19. Article 26 of the Fund's Regulations reads as follows: "In the event that an actuarial valuation of the Fund shows that its assets may not be sufficient to meet its liabilities under these Regulations, there shall be paid into the Fund by each member organization the sum necessary to make good the deficiency". Based on the provision quoted above, the members of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency had agreed at their session in December 1992 that any material deficiency or imbalance in the Fund should be disclosed in the financial statements of all the participating organizations as a contingent liability.

20. On the basis of the request of the General Assembly and the concerns of the Panel of External Auditors (which includes the Board of Auditors) the Panel had fruitful discussions with the Chairman and Rapporteur of the Committee of Actuaries, and the Secretary of the Pension Board in November 1993. Subsequently, the Panel suggested that the Pension Board consider in conjunction

with the Board of Auditors the following changes in the content and presentation of the results of actuarial valuations of the Fund and the presentation of the Fund's financial statements:

(a) that the Pension Board should provide, in its reports to the General Assembly and to other member organizations of the Fund, the results of the actuarial valuations of the Fund in dollar terms as well as in the form of percentages of pensionable remuneration;

(b) that the Pension Board, with the assistance of the Committee of Actuaries and Consulting Actuary, should provide an opinion as to the sufficiency of the assets to meet the liabilities under the Regulations of the Fund, taking into account the provision of article 26 of those Regulations; and

(c) that the Pension Board would consult with the Board of Auditors to address the question of including in the Pension Board's report, a statement by the Committee of Actuaries and the Consulting Actuary on the actuarial position of the Fund, to which the Board of Auditors may refer in their observations on the accounts of the Fund.

21. The Board of Auditors met with representatives of the Pension Fund to discuss the modalities for implementing the Panel's recommendations. The Secretary of the Pension Board indicated that, from a purely technical standpoint, he did not anticipate any difficulties in implementing the Panel's recommendations. However, the actual format for presenting the results, opinion and statements as suggested, as well as the necessary explanations thereto, would have to be considered and approved by the Pension Board for incorporation in its report to the forty-ninth session of the General Assembly. The explanations would have to be developed with great care so as to avoid the potential for misunderstanding by the "lay" reader.

Results of 22nd actuarial valuation of the Fund as at 31 December 1993

22. The Board was presented with the results of the twenty-second actuarial valuation of the Pension Fund as at 31 December 1993 which have been considered by the Pension Board at its July 1994 session for incorporation in its report to the forty-ninth session of the General Assembly.

23. Pursuant to the request of the General Assembly quoted in paragraph 18 above, the results of the present valuation were presented in dollar terms, as well as in the form of percentages of pensionable remuneration. The results of the present valuation indicate that there has been an increase in the actuarial imbalance of the Fund. The regular valuation prepared as at 31 December 1993 on the basis of 20-year participant growth assumptions, indicates a negative imbalance of 1.49 per cent of pensionable remuneration as compared to a negative imbalance of 0.57 per cent on the comparable growth assumptions basis three years earlier, or a change of 0.92 per cent of pensionable remuneration.

24. In dollar terms, the present negative imbalance has been presented as $1,857.1 million as compared to a negative imbalance of $641 million for the valuation as at 31 December 1990. The Consulting Actuary has observed that the actuarial deficit, when expressed in dollar terms, should be considered in relation to the magnitude of the liabilities. The deficit of $1,857.1 million under the regular valuation represented 4.3 per cent of the projected liabilities of the Fund.

Statement of the actuarial sufficiency as at 31 December 1993

25. The Consulting Actuary calculated the actuarial sufficiency as at 31 December 1993 on the following basis. The liabilities were calculated on a plan termination methodology. Under this methodology, the accrued entitlements of active participants were measured on the basis of their selecting the benefit of highest actuarial value available to them, assuming termination of employment on the valuation date. The liabilities for pensioners and their beneficiaries were valued on the basis of their accrued pension entitlements as of the valuation date. For purposes of demonstrating sufficiency under article 26 of the Regulations, no provision was made for pension adjustments subsequent to 31 December 1993.

($ Millions)

Item	Amount
Actuarial Value of Assets (1)	$11,740.3
Actuarial Value of Accrued Benefit Entitlements	8,618.4
Surplus	$ 3,121.9

(1) 5-year Moving Average Market Value, as adopted by the Pension Board for determining the actuarial value of the assets.

26. As indicated in the table above, the actuarial value of assets exceeds the actuarial value of all accrued benefit entitlements under the Fund, based on the understanding of the Consulting Actuary, of the Regulations of the Fund in effect on the valuation date. Accordingly, the Consulting Actuary and the Committee of Actuaries consider that there is no requirement, as of 31 December 1993, for deficiency payments under article 26 of the Regulations of the Fund.

Statement of actuarial position as at 31 December 1993

27. Based on the results contained in the valuation report, and after consideration of further relevant indicators and calculations, the Committee of Actuaries and the Consulting Actuary were of the opinion that the present contribution rate of 23.7 per cent of pensionable remuneration could be maintained for funding purposes, pending a review at the time of the next valuation, as at 31 December 1995, and in the light of developments which will have taken place between now and then.

United Nations System Accounting Standards

28. In 1993, following the final report of the United Nations Working Party on Accounting Standards, the Administrative Committee on Coordination approved formal accounting standards for the United Nations system. The General Assembly took note of the standards in its resolution 48/216 C of 23 December 1993.

29. The Board assessed the extent to which UNJSPF's financial statements for the 1992-1993 biennium conform to the United Nations System Accounting Standards. The review indicated that the presentation of the UNJSPF's financial statements for 1992-1993 is consistent with a number of the standards, but that further work needs to be done in the 1994-1995 biennium to bring the UNJSPF financial statements fully into line with these standards. The main areas for attention include income and expenditure statement, a statement of changes in financial resources of the Fund and the disclosure of the value of non-expendable property. The statement of changes in financial resources of the Fund may also be called "Reconciliation of the movement in the net assets of the Fund" which should clearly disclose:

- opening net assets of the Fund;
- net new money invested, per income and expenditure statements;
- change in market value of investments (realized and unrealized); and
- closing net assets of the Fund.

Part II: Management issues

Pension entitlements

Overpayments of benefits

(a) Overpayment of benefits to a widower and others

30. The Board noted from the receivables account that a widower was overpaid a widower's benefit by $308,387 over a period of 15 years. The widower's wife was a participant in the Fund who died while in service in March 1975. Consequently, the surviving spouse began receiving a widower's benefit as from 13 March 1975.

31. Article 34 (f) of the Regulations and Rules of the UNJSPF states, inter alia, that the survivor's benefit "shall be payable at periodic intervals for life or until remarriage". On 11 November 1977, the widower in question married again in New York. The widower did not communicate his remarriage to the Fund and continued to receive the widower's benefit until his death in November 1992. The truth came to light only when his surviving wife applied in 1993 for the continuation of the payment of a widow's benefit to her.

32. The Fund's procedures require the completion of a Certificate of Entitlement (CE) to confirm continued entitlement to benefits. The Board's examination disclosed that the only two Certificates of Entitlement completed by the beneficiary were on file, the 1983 and 1985 certificates. These were completed in a manner which, in the view of the Board, called for a follow-up action at the time to clarify his answers in order to confirm his actual marital status. A copy of the 1979 CE in respect of the beneficiary presented to the Board after the audit could not be verified.

33. Another case of overpayment related to the operation of the two-track adjustment system (dollar and non-dollar currencies) which aims at mitigating the effects of inflation and currency fluctuations. A beneficiary who had moved from a non-dollar zone to settle in the United States continued to receive benefits at the previous rate, which incidentally was higher than the rate

payable to United States residents. Instead of taking appropriate action to pay him the rate applicable to United States residents upon the notification of the change in residence, payments continued to be made to him at the previous rate resulting in overpayments totalling $14,431.98.

34. A further overpayment of $6,786.71 could have been recovered from the beneficiary's bank prior to the payment of her final withdrawal benefit if early action had been taken, whilst a fourth overpayment of $2,203.31 occurred as a result of a clerical error.

35. The four overpayments discussed above amounted to 53 per cent of the total overpayments made to beneficiaries as of 31 December 1993.

36. Indeed, the Board acknowledges the magnitude of the problems involved in the administration of about 35,000 benefits to persons world wide and the potential for overpayments due to the practical difficulties which inhibit effective verification and monitoring of the status of entitlements. Much therefore depends on the integrity of the beneficiaries and their dependants. This makes benefit payments inherently risky, hence the concern of the Board to explore opportunities for eliminating avoidable losses.

37. The Administration presently earmarks for signature verification 50 per cent of the CEs in respect of beneficiaries over the age of seventy-five and of disabled beneficiaries, as well as a 10 per cent random sampling of the remaining beneficiaries. The Administration is prepared to intensify its verification procedures as regards the continuing eligibility for benefits of widows/widowers.

38. The present procedures for verifying Certificates of Entitlements of widows/widowers for continuing eligibility for benefits should be improved in view of inherent risks in this type of benefit. Further, to serve as a deterrent, consideration should be given to the need to request widows/widowers to submit every two years notarized affidavits to the effect that they have not remarried.

39. The Administration does not think it would be practical or effective to require a notarized statement from widows and widowers every two years because, in its view, the act of notarization verifies only the identity of the signer and not the validity of the statements made by the signer. The Administration considers it unfair, unproductive and potentially costly to single out some 5,000 widows/widowers for requiring notarized affidavits as a possible means of ascertaining that they have not remarried.

40. The Board acknowledges the sentiments expressed by the Administration, but does not believe that the requirement for a notarized affidavit unduly inconveniences the beneficiaries, nor does it believe that the deterrent effect would be nil.

41. The Board would like to state that a survey was recently conducted by one of the members of the Board of Auditors of pension authorities in 15 Member States, each with significant numbers of beneficiaries in other countries. The survey found that all of the countries made extensive use of life certificates to confirm the status and continuing eligibility of benefit recipients. In addition, a number of these countries employed staff in countries where their beneficiaries were numerous, not only to assist the beneficiaries but also to verify, on a sample basis, that they were still alive. The same survey found that many multinational companies routinely use their local representatives to

carry out similar functions. Perhaps, some kind of sample verification can also be done by the Pension Fund through some United Nations organizations with offices world wide.

(b) Overpayment to deceased beneficiaries

42. Included in the accounts receivable balance as of 31 December 1993 is the amount of $312,273.18 which had been paid to 167 deceased beneficiaries. The Administration noted that this outstanding overpayment represented 0.006 per cent of total benefit payments made between 1983 and 1993. The Administration explains that most of the accumulated overpayments can and will be recovered, either from survivors' benefits or from the beneficiaries' estates. The Board is aware that because many benefits are paid monthly in advance it is almost impossible to completely avoid overpayments to dead beneficiaries unless the Fund is promptly notified of deaths. It is therefore to the credit of the Fund that the figure of overpayment is in the circumstances quite low.

43. The Board however, noted that the follow-up actions after the Fund has become aware of deaths of beneficiaries have, in some cases, been delayed. Also, in cases where various banks of the Fund have been instructed to hold monies as a result of the deaths of beneficiaries, it has taken the Fund a long time to clear such credits.

44. The Administration agrees with the Board that in some cases additional and more forceful follow-up actions should have been taken. Attempts will be made in the future to monitor the accounts receivable more closely and to record bank credits more promptly. The Fund will intensify efforts to improve its capability to identify overpayments and to pursue immediately their recovery. The Board was informed that the Fund's recently installed Operations Control System has significantly improved the Fund's monitoring capabilities.

Two-track pension adjustment system

45. To mitigate the effects of inflation and currency fluctuations, a unique and intricate pension adjustment system was introduced in 1975 and has subsequently been modified on several occasions thereafter. It aims at protecting the value of benefits, as established under the Fund's Regulations, against the effects of inflation and currency fluctuations. For beneficiaries residing outside the United States, it ensures that their dollar entitlements translate into adequate amounts in local currency. The system requires close monitoring, taking into account the current and future financial resources of the Fund.

46. In Section IV of resolution 46/192 of 20 December 1991, the General Assembly approved the most recent modification of the pension adjustment system recommended by the Pension Board, effective on 1 April 1992. In approving that modification, the General Assembly noted the intention of the Board to monitor closely its actual costs.

47. The Board's examination of a sample of cases from the pension payroll revealed 53 cases where the monthly amounts of the pension benefit paid in local currency under these arrangements exceeded $8,000 when converted into United States dollars. Fifty-two of them ranged from $8,000 to $12,869.95 and one amounted to $19,771.47 per month. In this latter case the benefit was paid to a former employee who had entitlements under another scheme prior to his organization becoming a member of UNJSPF. The Board noted however, that not a

single beneficiary to whom payment was made directly in dollars received a monthly benefit of more than $8,000.

48. The above comparison is not intended as a comment on the appropriateness or otherwise of the use of the post adjustment relativities in determining the local currency track pensions. The higher payments in the local amounts may however be taken into account in the periodic monitoring of the effects of the two-track pension adjustment system on the resources of the Fund.

49. The Administration said the first assessment of the actual costs will be provided by the Pension Board to the General Assembly at its forty-ninth session, based on the experience since 1 April 1992 and the results of the actuarial valuation of the Fund as of 31 December 1993.

Participants Reconciliation Exception (PRE) reports

50. The Board noted in its interim audits a significant backlog of pending cases due to delays by the participating organizations in reporting pension data to the Pension Entitlements Section. Discrepancies in the data submitted also lead to delays in the processing of pension benefits. These are reported in the Participant's Reconciliation Exception (PRE) reports.

51. Requests by the Fund to member organizations in June every year to investigate and resolve the discrepancies arising from improper reporting of contributions, pensionable remuneration rates and other relevant data are either ignored or receive belated responses.

52. To process pension benefits, the Fund has to receive all the required separation documents i.e. Separation Notification, Payroll Clearance Action and Payment Instructions from the participant. Without the receipt of the relevant documentation by the Pension Entitlements Section, the separation case is considered still pending and the name of the staff member concerned is not removed from the active status in the Fund's Master Record.

53. To address the concerns of the Board of Auditors and the Pension Board on the quality of pension data submitted by the participating organizations, the Fund requested the Internal Audit Division to conduct an audit of the pension data reporting system. The audit disclosed, inter alia, that the PRE report continued to calculate the estimated contributions for staff already separated, while no actual contributions were being reported for them. This indicates that the PRE is not adequately refined to exclude such cases from the report. It was therefore felt that instead of waiting for all the separation documents, the receipt of the separation notification properly signed may be considered sufficient for the removal of a separated staff member's name from the PRE report.

54. The Board welcomes the continuing efforts of the Fund in seeking the cooperation of reporting organizations to respond to the PRE reports. The Pension Fund Secretariat continues to investigate individual participant's accounts which have unresolved discrepancies. In addition to these efforts the Board recommends that the causes of inaccurate reporting and delayed processing of pension documentation identified by the internal audit review should be addressed to ensure the timely and accurate payment of pension benefits.

55. The Board was informed that, beginning with the 1993 PRE reports, all participants for whom any of the separation documents have been received but whose benefits have not been processed will be treated as separated for the

purpose of the PRE reports. This feature, which will reduce the number of cases to be investigated at year-end by the member organizations, was made possible by the introduction in 1993 of the Fund's enhanced Operations Control System.

Investments

Long outstanding tax refunds

56. In addition to other reasons, some Member States consider the investments of the Pension Fund as commercial and a normal profit-making activity. Consequently, some countries do not exempt the Fund from direct taxes under the Privileges and Immunities Convention. Interest and dividends earned from investment transactions in such countries are therefore subjected to taxes which are automatically withheld.

57. In its report on the Fund in the 1990-1991 biennium, the Board of Auditors noted that $12.4 million had been withheld as of 31 December 1991 by various countries and recommended that effective measures should continue to be taken to resolve the problem. As at 31 December 1993 the balance stood at $7,559,698.

58. The recovery of the outstanding tax reimbursement claims should continue, including the establishment of payment terms acceptable to both parties. The Administration should also continue to encourage the defaulting countries to accept the tax-exempt status of UNJSPF. Should this fail, the policy of eliminating the Fund's holdings from such countries should continue to be applied.

59. The Administration explained that the countries which have not granted tax exemption to the Fund argue that the Pension Fund is not covered in the privileges and immunities of the United Nations and it is not an organ of the United Nations. The Office of Legal Affairs has provided some legal opinion on the matter but the countries involved have not accepted that opinion. Some of them are however likely to grant the Fund tax exemption but not retroactively. The policy of requesting tax exemption before initiating investments in any country is still in effect and the Fund has received exemptions from three countries during 1993.

60. The Board was informed that about $4 million of the total tax receivable has not been refunded, $0.6 million of this is being withheld by countries where investments were initiated before the policy of requesting tax exemption prior to making investments was implemented. The balance of about $3 million was withheld by countries which have granted the Fund tax exemption and hence will be refunded eventually. About $2.9 million of this has been paid in 1994.

Internal audit

Internal audit coverage of Fund's activities

61. The Board notes that for the past several years the internal audits of the activities of the UNJSPF have been infrequent and coverage inadequate. The Board has learnt that UNJSPF investments may be audited without restriction by the United Nations Internal Audit Division (IAD) as these are managed by the Secretary-General of the United Nations. The scope of the IAD however, appeared to have been limited to the activities of the Pension Fund which relate to the participants who are staff members of the United Nations.

62. Article 14 (b) of the Fund's Regulations provides for an audit of the accounts of the Fund "by the United Nations Board of Auditors, in a manner agreed between the Board of Auditors and the Board". However, no provision is made for an internal audit function. It was explained that this is most likely due to the inter-agency nature of the Fund, whose membership comprises the United Nations and 15 other international organizations. Nevertheless, it has been the established practice of the Fund to arrange with the Internal Audit Service of the United Nations to perform audits on certain operational activities, taking into account that the Fund Secretariat also serves as the local pension secretariat for the United Nations family of organizations (UN, UNDP, UNICEF, UNHCR, UNEP, etc.). The Administration agreed that more extensive audits of particular areas of the Fund's operations should be carried out (possibly every 3 or 4 years), for example, payroll and investments. Because of the inter-agency nature of the Fund, the Administration expressed a preference that such additional auditing be done under the aegis of the Board of Auditors.

63. The Board believes strongly that the internal and external audit functions are separate because they fulfil different roles. An internal audit is an essential part of the overall internal control system of an organization. Internal audit is therefore viewed as a systematic and independent review mechanism for all the operations of an organization for the purposes of advising management on the efficiency and economy of internal controls and management practices. Based on the present size of the operations of the UNJSPF (investments exceed $11 billion, the Fund pays about $750 million annually to some 35,000 beneficiaries spread in 162 countries around the world) the need for an effective and adequate internal audit function cannot be disputed.

64. The Board therefore recommends that consideration should be given either to formally designating the Office of Inspections and Investigations as the internal auditors of the Fund or alternatively establishing arrangements for a separate internal audit function for the activities of the Fund.

Write-off of losses of cash, receivables and property

65. The Board of Auditors was informed that during the biennium ended 31 December 1993 receivables amounting to $59,132.51 were written off. This included a 50 per cent waiver of an overpayment made to a beneficiary in accordance with Administrative Rule J.9(b).

Cases of fraud and presumptive fraud

66. The Administration informed the Board that a widower who was receiving a survivor's benefit under article 35 of UNJSPF Regulations failed to notify the Fund when he remarried in 1977. The Fund therefore continued to pay him the survivor's benefit until his death in 1992 when the true circumstances came to light through his surviving widow. This resulted in a total net overpayment of $308,387.03. (Further details are discussed in paragraphs 30-32 of this report.)

Acknowledgement

67. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended by the Secretary of the United Nations Joint Staff Pension Board, the United Nations Controller, the Representative of the Secretary-General for the investments of the Fund and certain trust accounts, and all the senior officials of the Fund.

(Signed) Sir John BOURN
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

(Signed) Osei Tutu PREMPEH
Auditor-General of Ghana

(Signed) Codanda Ganapathy SOMIAH
Comptroller and Auditor General
of India

1 August 1994

ANNEX

Follow-up on actions taken to implement the recommendations of the Board of Auditors in its report on the accounts of the Fund for the year ended 31 December 1991 a/

1. As requested by the General Assembly in its resolution 48/216 of 23 December 1993, the Board has reviewed the actions taken by the Administration to implement the previous audit recommendations made by the Board in its report for the period ended 31 December 1991.

I. Recommendation 7(a)

2. The present system of recording and reporting as well as the control and monitoring of investment transactions should be assessed and the identified weaknesses improved. The Administration should require Fiduciary Trust Company International (FTCI) to adopt corrective measures in the present system to minimize, if not eliminate, any discrepancies in the recording and reporting of investment transactions.

Measures taken by the Administration

3. The number of discrepancies in the outputs generated by the two systems of the custodian has substantially declined as a result of modification of the two systems. The implementation of the Fund's new custody arrangements is expected to be completed by 30 June 1994. The introduction of a Master Record Keeper (MRK) as part of custodial services and the installation of the portfolio management system will provide the Fund with much better control systems, record-keeping, reporting and monitoring capabilities.

Comments of the Board

4. Improved procedures in recording, reporting and monitoring investment transactions have contributed to a substantial reduction in the number of discrepancies.

II. Recommendation 7(b)

5. The present system of verification of continuous entitlement and the issuance of Certificates of Entitlement should be studied and evaluated taking into consideration practicality of procedures, available technology and an adequate coverage of beneficiaries including the adoption of stratified sampling in the sample selection.

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a/ Official Records of the General Assembly, Forty-seventh Session, Supplement No. 9 (A/47/9) annex III.

Measures taken by the Administration

6. In the fall of 1993 a revised Certificate of Entitlement was implemented which was designed to facilitate the automation of the overall process as regards the production, mailing, return and recording of the returned certificates. A second mailing was made in December 1993 and suspension of pensions for those beneficiaries who had not returned their certificates was implemented on 1 June 1994. In light of the experience gained from this initial use of the revised certificate, a determination will be made with respect to the number of certificates to be verified for signature as well as other aspects of the overall checking procedure before the next issuance of certificates, scheduled for Fall 1994.

Comments of the Board

7. The effectiveness of the new system for the verification of continuous entitlement introduced in December 1993 will be examined in future audits.

III. Recommendation 7(c)

8. A decision should be made on investments with countries that do not grant tax exemption to the Fund. More effective measures should be undertaken to properly dispose of the long outstanding taxes withheld from the Fund.

Measures taken by the Administration

9. Efforts are continuing to pursue the recovery of the outstanding reimbursement claims. The Fund does not make any direct investments in countries where tax exemption status has not been granted.

Comments of the Board

10. The Fund's practice of refraining from direct investment in countries which deny tax exemption status to the Fund is being enforced. A decision to dispose definitively of the long outstanding withheld taxes has not been taken, because of the political and financial implications. The Board therefore does not intend to pursue further implementation of this recommendation.

IV. Recommendation 7(d)

11. The Investment Accounting Manual should be updated and/or revised to incorporate the multi-currency system of recording and reporting investment transactions.

Measures taken by the Administration

12. As explained in its response to the observation, the Investment Management Service was in the process of implementing a new accounting system and also new custody arrangements. Some of the functions are still evolving and the Manual is being implemented on an ongoing basis as the procedures of some of the

functions become clear. The Manual will be updated as soon as the necessary changes are completed.

Comments of the Board

13. The INCAS System, a multi-currency system introduced in 1993 is being updated to incorporate the requirements for the new custody arrangements. In an interim audit the Board observed that the Manual had not been updated to reflect the Fund's new policy on income recognition.

V. Recommendation 7(e)

14. Member organizations should be required to submit year-end schedules within 45 days after 31 December of each year together with any payment that may be due to the Fund. Also, consideration should be given to the possibility of including a provision in the Administration Manual requiring the payment of interest for balance of contributions due for prior years remitted to the Fund after 15 February of each year.

Measures taken by the Administration

15. The Fund has made a concentrated effort to impress upon all members organizations the importance of timely submission of error-free pension data. This requirement had been raised by the Secretary at various Pension Board sessions and has been reinforced in the annual letter to all organizations regarding year-end submissions. It should be noted that over the last two years much improvement has been made. In 1993 virtually all major organizations' schedules were received by 1 March 1994. As a result of this, and the other operational efficiencies, the financial statements for 1992 and 1993 were completed ahead of the scheduled date.

16. As a result of the close monitoring of the remittance of contributions made by member organizations, at the end of 1993 there were no significant balances due to the Fund and any amount due was promptly remitted to the Fund at the time of submission of the year-end reconciliation statement.

Comments of the Board

17. Timeliness in the submission of year-end schedules was achieved by most organizations in the 1992-1993 biennium. No provision has yet been made in the Administrative Manual for the payment of interest on delayed remittance of contributions.

VI. Recommendation 7(f)

18. United Nations Headquarters and the United Nations Development Programme (UNDP) should be requested to submit contribution statements at more frequent intervals, instead of only on a yearly basis.

Measures taken by the Administration

19. The United Nations began submitting quarterly contribution statements in the third quarter of 1992. However, despite repeated requests, UNDP has cited inadequate human resources and the large number of field offices involved as their reasons for not being able to submit contribution statements. Instead, UNDP provides a monthly payment advice which indicates the amounts remitted.

Comments of the Board

20. UN now submits quarterly statements while UNDP only provides monthly payment advice. The recommendation has therefore been partially implemented.

ANNEX IV

Statement of the actuarial sufficiency as at 31 December 1993 of the Fund to meet the liabilities under article 26 of the Regulations

1. In the report of the twenty-second actuarial valuation of the United Nations Joint Staff Pension Fund, the Consulting Actuary has assessed the actuarial sufficiency of the Fund, for purposes of determining whether there is a requirement for deficiency payments by the member organizations under article 26 of the Regulations of the Fund. The assessment as at 31 December 1993 was based on participant and asset information submitted by the secretariat of the Fund and on the Regulations in effect on that date.

2. The demographic and decremental actuarial assumptions used were those adopted by the Pension Board at its forty-fifth session, except that future new entrants were not taken into account and no future salary growth was assumed. A 9 per cent discount rate was used, which was the same rate adopted by the Board for the Regular Valuation of the Fund as at 31 December 1993.

3. The liabilities were calculated on a plan termination methodology. Under this methodology, the accrued entitlements of active participants were measured on the basis of their selecting the benefit of highest actuarial value available to them, assuming termination of employment on the valuation date. The liabilities for pensioners and their beneficiaries were valued on the basis of their accrued pension entitlements as of the valuation date. For purposes of demonstrating sufficiency under article 26 of the Regulations, no provision was made for pension adjustments subsequent to 31 December 1993.

4. All calculations were performed by the Consulting Actuary in accordance with established actuarial principles and practices.

5. The results of the calculations are set forth in the table below:

UNITED NATIONS JOINT STAFF PENSION FUND

Actuarial sufficiency of the Fund
as at 31 December 1993

($ Millions)

ITEM	AMOUNT
Actuarial Value of Assets[1]	$11,740.3
Actuarial Value of Accrued Benefit Entitlements	8,618.4
Surplus	$ 3,121.9

[1] 5-Year Moving Average Market Value, as adopted by the Pension Board for determining the actuarial value of the assets.

6. As indicated in the table above, the actuarial value of assets exceeds the actuarial value of all accrued benefit entitlements under the Fund, based on our understanding of the Regulations of the Fund in effect on the valuation date. Accordingly, there is no requirement, as at 31 December 1993, for deficiency payments under article 26 of the Regulations of the Fund.

ANNEX V

Statement of actuarial position of the Fund as at 31 December 1993

Introduction

1. The actuarial valuation as at 31 December 1993 was performed on a range of economic assumptions regarding future investment earnings and inflation. In addition, two sets of participant growth assumptions were used. The remaining actuarial assumptions, which are of a demographic nature, were derived on the basis of the emerging experience of the Fund, in accordance with sound actuarial principles. All of the assumptions used in the valuation were those adopted by the Pension Board at its forty-fifth session, based on the recommendations of the Committee of Actuaries, which are presented in the report of the Pension Board to the forty-ninth session of the General Assembly.

Actuarial position of the Fund as at 31 December 1993

2. At its meetings in June 1994, the Committee of Actuaries reviewed the results of the actuarial valuation as at 31 December 1993, which was carried out by the Consulting Actuary. Based on the results contained in the valuation report, and after consideration of further relevant indicators and calculations, the Committee of Actuaries and the Consulting Actuary were of the opinion that the present contribution rate of 23.7 per cent of pensionable remuneration could be maintained for funding purposes, pending a review at the time of the next valuation, as at 31 December 1995, and in the light of developments which will have taken place between now and then.

ANNEX VI

Summary of changes in the pension system recommended by the Board

The package of four measures which the Board agreed by consensus to recommend to the General Assembly for implementation with effect from 1 July 1995, together with their actuarial implications, are set out below:

Items	Actuarial cost (saving) as a percentage of pensionable remuneration
(a) Change cap provision under the pension adjustment system from 120 per cent to 110 per cent of local currency track amount (paras. 166 to 190)	(0.20)
(b) New Unisex mortality table for determining lump-sum commutation (paras. 59 to 72)	0.10
(c) Increase in maximum number of years of creditable contributory service (paras. 73 to 86)	0.06
(d) Application of 1 April 1992 modification of pension adjustment system to staff in the General Service and related categories (paras. 202 to 212)	*
Total	(0.04)

* Not expected to be significant, actual costs to be monitored

ANNEX VII

A. Proposed Agreement on the transfer of pension rights of participants in the United Nations Joint Staff Pension Fund and of participants in the Asian Development Bank Staff Retirement Plan

Article I

In the present agreement:

(a) "Pension Fund" means the United Nations Joint Staff Pension Fund;

(b) "UN participant" means a participant in the Pension Fund;

(c) "Bank" means the Asian Development Bank;

(d) "Plan" means the Asian Development Bank Staff Retirement Plan;

(e) "Bank participant" means a participant in the Plan.

Article II

(a) A former UN participant who has not received a benefit under the Regulations of the Pension Fund may avail himself of the provisions of this agreement if he enters the service of the Bank and becomes a Bank participant within six months after his participation in the Pension Fund has ceased and elects within such period to transfer his entitlements from the Pension Fund to the Plan.

(b) Upon such election the former UN participant shall cease to be entitled to any benefit under the Regulations of the Pension Fund.

(c) In the event of such election, the Pension Fund shall pay to the Plan an amount equal to the greater of:

(i) The equivalent actuarial value, calculated in accordance with articles 1, paragraph (a), and 11 of the Regulations of the Pension Fund, of the pension rights which the former UN participant had accrued in the Pension Fund based on his contributory service and final average remuneration up to the date his participation in the Pension Fund ceased; or

(ii) The withdrawal settlement to which he would have been entitled under article 31 of the Pension Fund Regulations, upon his separation from the service of a member organization of the Pension Fund.

(d) The former UN participant shall be credited with eligible service in the Plan, equal to such period as the actuarial advisers to the Plan shall determine as of the date of his election and in accordance with the tables adopted for this purpose by the Plan to be equal in value to the amount paid by the Pension Fund to the Plan.

Article III

(a) A former Bank participant who has not received any payment from the Plan resulting from his participation in the Plan may avail himself of the provisions of this agreement if he enters the service of a member organization of the Pension Fund and becomes a UN participant within six months after his participation in the Plan has ceased and elects within such period to transfer his entitlements from the Plan to the Pension Fund.

(b) Upon such election the former Bank participant shall cease to be entitled to any benefit under the Plan.

(c) In the event of such election, the Plan shall pay to the Pension Fund an amount equal to the greater of:

(i) The actuarial equivalent of the pension rights which the Bank participant accrued under the Plan up to the date his participation in the Plan ceased, computed on the basis of the tables adopted for this purpose by the Plan; or

(ii) The withdrawal benefit to which he would have been entitled under Section 3.5 of the Plan.

(d) The former Bank participant shall be credited with contributory service in the Pension Fund equal to such period as the actuarial advisers to the Pension Fund shall determine as of the date of his election and in accordance with articles 1, paragraph (a), and 11 of the Regulations of the Pension Fund to be equal in value to the amount paid by the Plan to the Pension Fund.

Article IV

UN participants who entered the service of the Bank and Bank participants who entered the service of a member organization of the Pension Fund, and became participants in the Plan or the Pension Fund, respectively, before 1 January 1995 and who have not received any payments from the Pension Fund resulting from their UN participation, or from the Plan resulting from their Bank participation, as the case may be, may elect to avail themselves of the provisions of this agreement by so informing the Pension Fund and the Plan in writing before 30 June 1995. Upon such election, the provisions of article II, paragraphs (b), (c) and (d) and article III, paragraphs (b), (c) and (d) above shall apply.

Article V

This agreement shall take effect from 1 January 1995.

Its implementation shall be subject to the Rules of Administration and Procedure that may be established by agreement between the Secretary of the Pension Fund and the Pension Committee of the Plan.

B. Proposed Agreement on the transfer of pension rights of participants in the United Nations Joint Staff Pension Fund and of participants in the Retirement Plans of the European Bank for Reconstruction and Development

Article 1

In the present agreement:

(a) "Pension Fund" means the United Nations Joint Staff Pension Fund;

(b) "UN participant" means a participant in the Pension Fund;

(c) "Bank" means the European Bank for Reconstruction and Development;

(d) "Plans" means the Retirement Plans of the Bank;

(e) "Final Salary Plan" means the Final Salary Retirement Plan of the Bank;

(f) "Bank participant" means a participant in the Plans;

(g) "EBRD Administration Committee" means the Administration Committee of the Plans;

(h) "EBRD Pension Committee" means the Pension Committee of the Plans.

Article II

(a) A former UN participant who has not received a benefit under the Regulations of the Pension Fund may avail himself of the provisions of the present agreement if he enters the service of the Bank and becomes a Bank participant within six months after his participation in the Pension Fund has ceased and elects within such period to transfer his entitlements from the Pension Fund to the Plans.

(b) Upon such election the former UN participant shall cease to be entitled to any benefit under the Regulations of the Pension Fund.

(c) In the event of such election, the Pension Fund shall pay to the Bank, for the credit of the former UN participant in the Plans, an amount equal to the greater of:

(i) The equivalent actuarial value, calculated in accordance with articles 1, paragraph (a) and 11 of the Regulations of the Pension Fund, of the pension rights which the former UN participant had accrued in the Pension Fund based on his contributory service and final average remuneration up to the date his participation in the Pension Fund ceased; or

(ii) The withdrawal settlement to which he would have been entitled under article 31 of the Pension Fund Regulations, upon his separation from the service of a member organization of the Pension Fund.

(d) The former UN participant shall be credited in the Plans with benefits, as determined by the EBRD Administration Committee, equal in value to the amount paid by the Pension Fund to the Bank under the present agreement.

Article III

(a) A former Bank participant who has not received a benefit from the Final Salary Plan may avail himself of the provisions of the present agreement if he enters the service of a member organization of the Pension Fund and becomes a UN participant within six months after his participation in the Plans has ceased and elects within such period to transfer to the Pension Fund his entitlements from the Final Salary Plan.

(b) Upon such election the former Bank participant shall cease to be entitled to any benefit under the Final Salary Plan.

(c) In the event of such election, the Bank shall pay to the Pension Fund an amount equal to the greater of:

(i) The actuarial equivalent of the pension rights which the Bank participant accrued under the Final Salary Plan up to the date his participation therein ceased, computed on the basis of the tables last adopted for this purpose by the EBRD Administration Committee; or

(ii) The withdrawal benefit to which he would have been entitled under the Final Salary Plan.

(d) The former Bank participant shall be credited with contributory service in the Pension Fund equal to such period as the actuarial advisers to the Pension Fund shall determine as of the date of his election and in accordance with articles 1, paragraph (a), and 11 of the Regulations of the Pension Fund to be equal in value to the amount paid by the Bank to the Pension Fund.

Article IV

UN participants who entered the service of the Bank and became Bank participants, and Bank participants who entered the service of a member organization of the Pension Fund and became UN participants before 1 January 1995, respectively, and who have not received any payments from the Pension Fund, or from the Final Salary Plan, as the case may be, may elect to avail themselves of the provisions of this agreement by so informing the Pension Fund and the Bank in writing before 30 June 1995. Upon such election, the provisions of article II, paragraphs (b), (c) and (d) and article III, paragraphs (b), (c) and (d) above shall apply.

Article V

This agreement shall take effect from 1 January 1995.

Its implementation shall be subject to the Rules of Administration and Procedure that may be established by agreement between the Secretary of the Pension Fund and the EBRD Pension Committee.

ANNEX VIII

Table 1. Revised budget estimates for the biennium 1994-1995
(Thousands of US dollars)

Object of Expenditure	Initial appropri-ations (1)	Decisions of Policy-Making Organs (2)	Other changes (3)	Adjustments to standard costs (4)	Rates of exchange (5)	Inflation (6)	Total requirements (2+3+4+5+6) (7)	Revised estimates (1+7) (8)
A. Administrative Costs								
Established Posts	6 905.4	0.0	0.0	0.0	0.0	0.0	0.0	6 905.4
Common staff costs	2 671.8	0.0	0.0	0.0	0.0	0.0	0.0	2 671.8
Temporary Assistance	145.8	223.4	0.0	0.0	0.0	10.8	234.2	380.0
Common staff costs	58.2	77.0	0.0	0.0	0.0	4.0	81.0	139.2
Overtime	185.7	0.0	0.0	0.0	0.0	0.0	0.0	185.7
Travel of staff	104.3	24.3	0.0	0.0	0.0	0.7	25.0	129.3
Actuarial consulting services	450.0	0.0	0.0	0.0	0.0	0.0	0.0	450.0
Consultants	42.1	0.0	0.0	0.0	0.0	0.0	0.0	42.1
Committee of Actuaries	66.3	0.0	0.0	0.0	0.0	0.0	0.0	66.3
Data processing costs								
-Services rendered by United Nations	40.0	0.0	0.0	0.0	0.0	0.0	0.0	40.0
-Rental and maintenance of equipment	903.4	0.0	0.0	0.0	0.0	0.0	0.0	903.4
-Acquisition of equipment	241.6	48.5	0.0	0.0	0.0	1.5	50.0	291.6
-Contractual services	519.0	0.0	0.0	0.0	0.0	0.0	0.0	519.0
-Supplies and materials	155.6	0.0	0.0	0.0	0.0	0.0	0.0	155.6
External audit	30.4	0.0	0.0	0.0	0.0	0.0	0.0	30.4
Communications services	10.0	0.0	0.0	0.0	0.0	0.0	0.0	10.0
Hospitality	12.1	0.0	0.0	0.0	0.0	0.0	0.0	12.1
Miscellaneous supplies and services	43.1	0.0	0.0	0.0	0.0	0.0	0.0	43.1
Training	24.4	0.0	0.0	0.0	0.0	0.0	0.0	24.4
Total administrative costs	12 609.2	373.2	0.0	0.0	0.0	17.0	390.2	12 999.4

Table 1. (continued)
(The following table reflects the initial approved appropriations; no revisions are requested)

Object of Expenditure	Initial appropri-ations (1)	Decisions of Policy-Making Organs (2)	Other changes (3)	Adjustments to standard costs (4)	Rates of exchange (5)	Inflation (6)	Total requirements (2+3+4+5+6) (7)	Revised estimates (1+7) (8)
B. Investment costs								
Established Posts	2 418.3	0.0	0.0	0.0	0.0	0.0	0.0	2 418.3
Common staff costs	957.8	0.0	0.0	0.0	0.0	0.0	0.0	957.8
Temporary Assistance	30.4	0.0	0.0	0.0	0.0	0.0	0.0	30.4
Common staff costs	12.0	0.0	0.0	0.0	0.0	0.0	0.0	12.0
Overtime	51.9	0.0	0.0	0.0	0.0	0.0	0.0	51.9
Travel of staff	205.1	0.0	0.0	0.0	0.0	0.0	0.0	205.1
Advisory and custodial fees	20 000.0	0.0	0.0	0.0	0.0	0.0	0.0	20 000.0
Investment consultants	307.6	0.0	0.0	0.0	0.0	0.0	0.0	307.6
Investments Committee	476.8	0.0	0.0	0.0	0.0	0.0	0.0	476.8
Investment reference services	494.5	0.0	0.0	0.0	0.0	0.0	0.0	494.5
Communications	195.6	0.0	0.0	0.0	0.0	0.0	0.0	195.6
Data processing	305.2	0.0	0.0	0.0	0.0	0.0	0.0	305.2
Hospitality	12.0	0.0	0.0	0.0	0.0	0.0	0.0	12.0
Miscellaneous supplies and services	52.1	0.0	0.0	0.0	0.0	0.0	0.0	52.1
Training	54.5	0.0	0.0	0.0	0.0	0.0	0.0	54.5
Bank charges	849.6	0.0	0.0	0.0	0.0	0.0	0.0	849.6
Office furniture and fixtures	259.3	0.0	0.0	0.0	0.0	0.0	0.0	259.3
Total investment costs	26 682.7	0.0	0.0	0.0	0.0	0.0	0.0	26 682.7
Total administrative costs	12 609.2	373.2	0.0	0.0	0.0	17.0	390.2	12 999.4
GRAND TOTAL	39 291.9	373.2	0.0	0.0	0.0	17.0	390.2	39 682.1

ANNEX IX

Member organizations of the Fund

The member organizations of the Fund are the United Nations and the following:

European and Mediterranean Plant Protection Organization (EPPO)

Food and Agriculture Organization of the United Nations (FAO)

Interim Commission for the International Trade Organization (ICITO)

International Atomic Energy Agency (IAEA)

International Centre for the Study of the Preservation and the Restoration of Cultural Property (ICCROM)

International Civil Aviation Organization (ICAO)

International Fund for Agricultural Development (IFAD)

International Labour Organization (ILO)

International Maritime Organization (IMO)

International Telecommunication Union (ITU)

United Nations Educational, Scientific and Cultural Organization (UNESCO)

United Nations Industrial Development Organization (UNIDO)

World Health Organization (WHO)

World Intellectual Property Organization (WIPO)

World Meteorological Organization (WMO)

Annex X

ATTENDANCE AT THE FORTY-SIXTH SESSION OF THE BOARD

1. The following members and alternate members were accredited by the staff pension committees of the member organizations of the Fund, in accordance with the rules of procedure:

Representing	Members	Alternates
United Nations		
General Assembly	Mr. J. J. Duhalt (Mexico)	Mr. L. E. Bidny (Russian Federation)
General Assembly	Mr. T. Inomata (Japan) a/	Mr. T. B. Hamida (Tunisia)*
General Assembly	Mr. M. G. Okeyo (Kenya)*	Mr. R. Rae (India)
General Assembly	Ms. S. Shearouse (United States of America)	Mr. C. Stitt (United Kingdom of Great Britain and Northern Ireland)
Secretary-General	Mr. Y. Takasu (Japan)	Mr. M. Baquerot (France)
Secretary-General	Ms. C. Dodson (United States)*	Ms. D. Bull (United Kingdom)*
Secretary-General	Mr. A. Miller (Australia)	
Secretary-General	Mr. K. Walton (United Kingdom)	
Participants	Mr. B. Hillis (Canada)	Mr. A. Kruiderink (Netherlands)
Participants	Ms. V. Baeza (Chile)*	Mr. O. Lugo (Colombia)
Participants	Mr. N. Kakar (India)	
Participants	Ms. S. Johnston (United States)*	
Food and Agriculture Organization of the United Nations		
Governing body	Mrs. G. Dubra (Uruguay)	Mr. F. Bature (Nigeria)
Executive head	Mr. G. Eberle (Italy)	
Participants	Mr. A. Marcucci (Italy) b/	Mr. M. Arrigo (Italy)
World Health Organization		
Governing body	Dr. J. Lariviere (Canada)	Prof. B. Roos (Switzerland)
Executive head	Mr. D. G. Aitken (United Kingdom)	Mr. D. Sanvicenti (Italy
Participants	Mr. J. Campagnaro (Brazil)	Ms. V. Paterson (United Kingdom)
International Labour Organization		
Executive head	Mr. R. Smith (United Kingdom) d/	Mr. A. Busca (Italy) c/
Participants	Mr. J. V. Gruat (France)	Mrs. I. Marguet (Ireland)

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* Did not attend session.

United Nations Educational, Scientific and Cultural Organization

Governing body	Mrs. P. Depré (Belgium)	
Executive head	Mr. D. Daly (Ireland)	

United Nations Industrial Development Organization

Participants	Mr. K. Ahmed (Sudan)	Ms. J. Bancroft (United States)

International Civil Aviation Organization

Governing body	Mr. L. Mollel (United Republic of Tanzania)

International Atomic Energy Agency

Governing body	Mr. R. Hamada (Tunisia)
Participants	Mr. W. Scherzer (Austria)

International Telecommunication Union

Executive head	Mr. J.-P. Baré (France)
Participants	Mr J. Desbiolles (France)

International Maritime Organization

Participants	Mr. D. Bertaud (France)	Mr. M. Tun (Myanmar)

Interim Commission for the International Trade Organization/ General Agreement on Tariffs and Trade

Governing body	Mr. P. Cheung (Hong Kong)

World Meteorological Organization

Executive head	Mr. T. Joel (Australia)	Mr. E. Renlund (Sweden)

World Intellectual Property Organization

Executive head	Mr. J.-L. Perrin (France)

International Fund for Agricultural Development

Governing body	Mr. F. Bature (Nigeria)

2. The following attended the session of the Board as representatives, observers or secretaries of staff pension committees, in accordance with the rules of procedure:

Representatives	*Organization*	*Representing*
Mr. Y. Chotard	ILO	Governing body
Mr. A. McLurg	UNESCO	Participants
Mr. A. Aziria	UNIDO	Governing body
Mr. H. Creydt	UNIDO	Executive head
Mr. D. J. Goossen	ICAO	Executive head
Mr. R. G. Menzel	ICAO	Participants
Mr. R. Maga	ITU	Governing body
Mr. D. Goethel g/	IAEA	Executive head
Capt. R.-G. Lewis	IMO	Governing body
Mr. R. G. Jones	IMO	Executive head
Mr. N. Johnstone	ICITO/GATT	Participants
Mr. C. Wetz	WIPO	Governing body
Mr. A. Ali	FAFICS	Pensioners
Mr. G. Saddler	FAFICS	Pensioners
Mr. O. Larghi (Alt.)	FAFICS	Pensioners
Mr. W. Zyss (Alt.)	FAFICS	Pensioners

Observer	*Organization*
Ms. J. Lavnick-Wainstead	Federation of International Civil Servants' Associations (FICSA)
Mr. M. Oummih	Co-ordinating Committee for Independent Staff Unions and Associations of the United Nations System (CCISUA)
Mr. J. F. Armistead	Inter-American Development Bank
Mr. D. Ripandelli	International Centre for Genetic Engineering and Biotechnology
Mr. R. Burston	European Bank for Reconstruction and Development
Mr. C. C. K. Chih	World Bank
Dr. C. D. Banda	Preparatory Commission for the Organisation for the Prohibition of Chemical Weapons

Secretary	*Staff Pension Committee*
Mr. G. Eberle	FAO
Mrs. R. Wiedmer	WHO
Mr. R. Leone de Magistris	ILO
Ms. C. McGarry**	ILO
Ms. C. Kerlouegan	UNESCO
Mrs. U. Peer	UNIDO
Mr. P. Uhl	IAEA
Mr. M. Rolland	ITU
Mr. L. Gunnestedt	IMO
Mr. R. Luther	ICITO/GATT
Mr. J.-L. Perrin	WIPO

** The new Secretary of the ILO SPC effective 1 August 1994.

3. The following attended all or part of the session of the Board:

International Civil Service Commission

Mr. M. Bel Hadj Amor, Chairman
Mr. W. Sach, Secretariat

Committee of Actuaries

Mr. L. J. Martin, Rapporteur

Consulting Actuary

Mr. R. Sharp

Medical Consultant

Dr. I. Laux

Investments Committee, advisors and staff

Mr. J. Guyot, Chairman
Mr. A. Abdullatif, Member
Ms. F. J. Bovich, Member
Mr. A. de Andrade Faria, Member
Mr. M. Matsukawa, Member
Mr. Y. Oltramare, Member
Mr. E. N. Omaboe, Member
Mr. S. Raczkowski, Member
Mr. J. Reimnitz, Member
Mr. A. P. Papamarkou, Ad Hoc Member
Mr. P. Stormonth Darling, Ad Hoc Member
Mr. L. Thomas, Vice Chairman, FTCI
Mr. C. Elkus, Executive Vice-President, FTCI
Mr. A. Steinkamp, Senior Vice-President, FTCI
Mr. B. Hopkinson, Senior Vice-President, FTCI
Mr. W. Keyser, Vice-President, FTCI
Mr. D. Smart, Senior Vice-President, FTCI
Mr. J. E. Connor, Under-Secretary-General for Administration and Management and Representative of the Secretary-General for the investments of UNJSPF
Mr. H. L. Ouma, Chief, Investment Management Service
Ms. L. E. Landmesser, Senior Investment Officer, IMS
Ms. M.-L. Cheng, Secretary, Investments Committee

4. Mr. R. Gieri and Mr. J. P. Dietz (Secretary and Deputy Secretary to the Board) served as Secretary and Deputy Secretary of the session, with the assistance of Mr. J. J. Flanagan, Mr. G. Ferrari, Mr. K. Widdows and Ms. P. Ryder.

Notes

a/ First Vice-Chairman.

b/ Chairman.

c/ Rapporteur (first week).

d/ Rapporteur (second week).

e/ Second Vice-Chairman.

Annex XI

MEMBERSHIP OF THE STANDING COMMITTEE

Representing	*Members*	*Alternates*
United Nations (Group 1)		
General Assembly	Mr. T. Inomata	Mr. L. Bidny
General Assembly	Mr. C. Stitt	Ms. S. Shearouse
Secretary-General	Mr. Y. Takasu	Mr. K. Walton
Secretary-General	Mr. A. Miller	Ms. D. Bull
Participants	Mr. B. Hillis	Ms. S. Johnston
Participants	Mr. N. Kakar	Mr. A. Kruiderink
Specialized agencies (Group II)		
Governing body	Dr. J. Lariviere (WHO)	Prof. B. Roos (WHO)
Executive head	Mr. G. Eberle (FAO)	Mr. D. Sanvicenti (WHO)
Participants	Mr. A. Marcucci (FAO)	Mr. M. Arrigo (FAO)
Specialized agencies (Group III)		
Executive head	Mr. R. Smith (ILO)	Mr. A. Busca (ILO)
Participants	Mr. A. McLurg (UNESCO)	
Specialized agencies (Group IV)		
Governing body	Mr. L. Mollel (ICAO)	Mr. R. Maga (ITU)
Participants	Mr. W. Scherzer (IAEA)	Mr. K. Ahmed (UNIDO)
Specialized agencies (Group V)		
Governing body	Mr. P. Cheung (GATT)	Mr. F. Bature (IFAD)
Executive head	Mr. J.-L. Perrin (WIPO)	Mr. E. Renlund (WMO)

ANNEX XII

Membership of the Committee of Actuaries

The membership of the Committee is as follows:

Mr. A. O. Ogunshola (Nigeria) - Region I (African States)

Mr. K. Takeuchi (Japan) - Region II (Asian States)

Mr. E. M. Chetyrkin (Russian Federation) - Region III (Eastern European States)

Mr. H. Pérez Montas (Dominican Republic) - Region IV (Latin America)

Mr. L. J. Martin (United Kingdom) - Region V (Western European and other States)

In addition, Mr. R. J. Myers (United States) has been appointed as a member emeritus.

Annex XIII

MEMBERSHIP OF THE INVESTMENTS COMMITTEE

The membership of the Investments Committee is as follows:

Mr. A. Abdullatif	(Saudi Arabia)
Ms. F. Bovich	(United States)
Mr. A. Faria	(Brazil)
Mr. J. Guyot	(France)
Mr. M. Matsukawa	(Japan)
Mr. Y. Oltramare	(Switzerland)
Mr. E. N. Omaboe	(Ghana)
Mr. S. Raczkowski	(Poland)
Mr. J. Reimnitz	(Germany)

Ad hoc members

Mr. A. Papamarkou	(United States)
Mr. P. Stormonth Darling	(United Kingdom)

Member Emeritus

Mr. B. K. Nehru	(India)

Annex XIV

Recommendations to the General Assembly for the amendment of the Regulations of the United Nations Joint Staff Pension Fund

Existing text	Proposed text	Comments
Article 28 **Retirement benefit** (b) (iii) The years of his contributory service in excess of 10, but not exceeding 25, by 2 per cent of his final average remuneration. --- --- -119-	**Article 28** **Retirement benefit** (b) (iii) The next 25 years of his contributory service, by 2 per cent of his final average remuneration; and (b) (iv) The years of his contributory service in excess of 35 and performed as from 1 July 1995, by 1 per cent of his final average remuneration, subject to a maximum total accumulation rate of 70 per cent. * * * **delete word** "and" **at end of** (c)(i); (c) (ii) ...; and (c) (iii) The years of his contributory service in excess of 35 and performed as from 1 July 1995, by 1 per cent of his final average remuneration, subject to a maximum total accumulation rate of 70 per cent.	To make years of contributory service beyond 35 creditable, as from 1 July 1995, at an annual accumulation rate of 1 per cent per year, subject to a maximum accumulation rate of 70 per cent.

Existing text	Proposed text	Comments
Article 54 **Pensionable remuneration** (b) In the case of participants in the Professional and higher categories, the scale of pensionable remuneration effective 1 May 1989, set out in appendix B hereto, shall be adjusted on the same date as the net remuneration amounts of officials in the Professional and higher categories in New York are adjusted. Such adjustment shall be by a uniform percentage equal to the weighted average percentage variation in the net remuneration amounts, as determined by the International Civil Service Commission, except that: (i) The amount of the first adjustment due after 1 January 1990 shall be reduced by 2.8 percentage points; (ii) The scale of pensionable remuneration determined by the International Civil Service Commission as corresponding to the revised salary structure entering into effect on 1 July 1990 shall become effective on the same date.	**Article 54** **Pensionable remuneration** (b) In the case of participants in the Professional and higher categories, the scale of pensionable remuneration effective 1 November 1994 shall be as set out in appendix B hereto. It shall be adjusted on the same date as the net remuneration amounts of officials in the Professional and higher categories in New York are adjusted. Such adjustment shall be by a uniform percentage equal to the weighted average percentage variation in the net remuneration amounts, as determined by the International Civil Service Commission. (c) (i) In the case of participants who are appointed or elected as ungraded officials on or after 1 April 1995, their pensionable remuneration shall be established by the competent legislative organ which determines their other conditions of service, in accordance with the methodology recommended by the International Civil Service Commission and endorsed by the General Assembly, and shall be subsequently adjusted in accordance with the procedure in (b) above;	To update scale of pensionable remuneration for Professional and higher categories, and to fill *lacunae* in article 54, by defining pensionable remuneration of ungraded officials and of participants in the UN Field Service category, and by adding limitations on recognition of longevity/merit increments.

Existing text	Proposed text	Comments
	(ii) In the case of participants who are ungraded officials on 31 March 1995, their pensionable remuneration shall be maintained, without adjustment, until surpassed by the level of pensionable remuneration derived from application of the methodology referred to in (i) above; (d) In the case of participants in the United Nations Field Service category, the scale of pensionable remuneration effective 1 November 1994 shall be as set out in Appendix C hereto, and shall be subsequently adjusted in accordance with the procedure in (b) above; (e) No step increments beyond the top step of the gross pensionable salary scale or the scale of pensionable remuneration established according to the methodology approved by the General Assembly on the recommendation of the International Civil Service Commission, shall be recognized for participants entering or re-entering the Fund on or after 1 January 1994. Nevertheless, any step increments awarded in conformity with the provisions of the appropriate Staff Regulations or Rules of a member organization to a staff member in service in	

Existing text	Proposed text	Comments
	that organization before 1 January 1994 shall be recognized by the Fund for pension contribution and benefit calculation purposes.	

Annex XV

Recommendations to the General Assembly for changes in the pension adjustment system a/

Existing text	Proposed text	Comments
Section D **Cost-of-living differential factors** 6 (b)(v) The applicable cost-of-living differential factor is finally derived from the following table, the result being interpolated, where necessary, between the factors applicable to the next higher and the next lower ratio in the table: Ratio of midpoint net salaries / Cost-of-living differential factor (percentage) Less than 122 — 0 122 — 3 128 — 7 134 — 12 141 — 17 148 — 22 155 — 28 162 — 34 171 — 40 180 or more — 46	**Section D** **Cost-of-living differential factors** 6 (b)(v) The applicable cost-of-living differential factor is finally derived from the following tables, the result being interpolated, where necessary, between the factors applicable to the next higher and the next lower ratio in the applicable table: Benefits based on separations or deaths in service before 1 July 1995 and other benefits derived therefrom Ratio of midpoint net salaries / Cost-of-living differential factor (percentage) Less than 122 — 0 122 — 3 128 — 7 134 — 12 141 — 17 148 — 22 155 — 28 162 — 34 171 — 40 180 or more — 46	To implement Board's recommendation to extend to General Service staff, as from 1 July 1995, the longer-term modifications introduced effective 1 April 1992 with respect to Professional and higher category staff.

a/ The pension adjustment system was adopted by the General Assembly under resolution 37/131 of 17 December 1982 and subsequently amended by Assembly resolutions 39/246 of 18 December 1984, 41/208 of 11 December 1986, 42/222 of 21 December 1987, 44/199 of 21 December 1989, 45/242 of 21 December 1990, 46/192 of 20 December 1991 and 47/203 of 22 December 1992.

Existing text	Proposed text	Comments

Benefits based on separations or deaths in service on or after 1 July 1995 and other benefits derived therefrom

Ratio of midpoint net salaries	Cost-of-living differential factor (percentage)
Less than 105	0
105	3
110	8
116	14
122	19
128	25
134	31
141	38
148	45
155	52
163	60
171	68
180	76
189	85
198	94
208 or more	104

Existing text	Proposed text	Comments
Section E Special adjustment for small pensions 7. Whenever the standard annual rate of a retirement or disability benefit under the Fund's Regulations, before any commutation, is less than the highest dollar amount in the applicable table below, the benefit shall be subject to a special adjustment as follows:	Section E Special adjustment for small pensions 7. Whenever the standard annual rate of a retirement or disability benefit under the Fund's Regulations, before any commutation, is less than the highest dollar amount in the applicable table below, the benefit shall be subject to a special adjustment as follows:	To revise the schedule of annual pension amounts that qualify for the special adjustments.

Annual amount of pension	Special Adjustment (percentage)
Separations before 1 April 1993	
$ 4 000	0
3 800	3
3 600	7
3 400	12
3 200	17
3 000	22
2 800	28
2 600	34
2 400	40
2 200 or less	46
Separations on or after 1 April 1993	
$ 6 500	0
6 250	3
6 000	6
5 750	9
5 500	12
5 250	15
5 000	18
4 750	21
4 500	25
4 250	28
4 000	31
3 750	34
3 500	37
3 250	40
3 000	43
2 750 or less	46

Annual amount of pension	Special Adjustment (percentage)
Separations before 1 April 1993	
$ 4 000	0
3 800	3
3 600	7
3 400	12
3 200	17
3 000	22
2 800	28
2 600	34
2 400	40
2 200 or less	46
Separations on or after 1 April 1993 up until 1 July 1995	
$ 6 500	0
6 250	3
6 000	6
5 750	9
5 500	12
5 250	15
5 000	18
4 750	21
4 500	25
4 250	28
4 000	31
3 750	34
3 500	37
3 250	40
3 000	43
2 750 or less	46

Existing text	Proposed text	Comments
	Separations on or after 1 July 1995	
	$ 6 500 0	
	6 250 3	
	6 000 7	
	5 750 12	
	5 500 17	
	5 250 22	
	5 000 28	
	4 750 34	
	4 500 40	
	4 250 52	
	4 000 60	
	3 750 68	
	3 500 76	
	3 250 85	
	3 000 94	
	2 750 or less 104	

Existing text	Proposed text	Comments
Section I Payment of the benefit 23. Where a beneficiary resides in a country other than the United States, the determination of the amount of the periodic benefit payable in a given month is as follows: The dollar amount as initially determined under subparagraph 5 (a) above and, if applicable, later adjusted under section H above, is converted to the local currency equivalent by using the exchange rate in effect for the month preceding the calendar quarter of that payment. The resultant amount is then compared to the local currency amount as initially determined under subparagraph 5 (b) above and later adjusted under section H above, if applicable. Except as provided in paragraph 25 below, the beneficiary is entitled, until the next quarter, to the greater of the local currency amount or the local currency equivalent of the dollar amount, subject to a maximum of 120 per cent of the local currency amount.	Section I Payment of the benefit 23. Where a beneficiary resides in a country other than the United States, the determination of the amount of the periodic benefit payable in a given month is as follows: The dollar amount, as initially determined under subparagraph 5 (a) above and then adjusted under section H above, is converted to the local currency equivalent by using the exchange rate in effect for the month preceding the calendar quarter of that payment. The resultant amount is compared to the local currency amount, as initially determined under subparagraph 5 (b) above and then adjusted under section H above. Except as provided in paragraph 25 below, the beneficiary is entitled, until the next quarter, to the greater of the local currency amount or the local currency equivalent of the dollar amount, subject to a maximum of: (a) 120 per cent of the local currency amount with respect to benefits payable on account of separations or deaths in service before 1 July 1995 and other benefits derived therefrom; (b) 110 per cent of the local currency amount with respect to benefits payable on account of separations or deaths in service on or after 1 July 1995 and other benefits derived therefrom.	To implement Board's recommendation to lower the "cap" effective 1 July 1995, in relation to participants retiring on or after that date.

ANNEX XVI

Draft resolution proposed for adoption by the General Assembly

[The draft resolution covers those matters in the report of the United Nations Joint Staff Pension Board which require action by the General Assembly, as well as other matters in the report which the Assembly may wish to address in its resolution. The item "special index for pensioners", included under section III of the draft resolution, was also reviewed by the International Civil Service Commission in its report; both the Commission and the Board decided to defer recommendations on the special index until 1996.]

The General Assembly,

Recalling its resolutions 45/242 of 21 December 1990, 46/192 of 20 December 1991, 47/203 of 22 December 1992, and 48/225 of 23 December 1993,

Having considered the report of the United Nations Joint Staff Pension Board for 1994 to the General Assembly and to the member organizations of the United Nations Joint Staff Pension Fund, a/ chapter III, Part A, of the report of the International Civil Service Commission, b/ the report of the Secretary-General on the investments of the Fund, c/ and the related report of the Advisory Committee on Administrative and Budgetary Questions, d/

I

ACTUARIAL MATTERS

Recalling section II of resolutions 47/203 and 48/225,

1. Welcomes the changes made by the United Nations Joint Staff Pension Board in the presentation of the results of the valuation of the Fund as at 31 December 1993, in response to requests made by the Panel of External Auditors and pursuant to discussions with the Board of Auditors, so as to provide (a) the valuation results in dollar terms as well as in the form of percentages of pensionable remuneration, (b) additional disclosures regarding the values of the assets and liabilities, and (c) statements by the Consulting Actuary and the Committee of Actuaries regarding the sufficiency of the assets of the Fund to meet current and projected liabilities;

2. Takes note of the increase in the actuarial imbalance from 0.57 to 1.49 per cent of pensionable remuneration, reflected in the valuation of the Fund as at 31 December 1993; of the elements which contributed to the increase in the imbalance, including in particular the increase in the life expectancy of pensioners; and of the observations on the valuation results of the Consulting Actuary, the Committee of Actuaries and the Board;

3. Takes note in particular of the opinions provided by the Consulting Actuary and the Committee of Actuaries, as reproduced in annexes IV and V of the report of the United Nations Joint Staff Pension Board, respectively, that there was no requirement, as at 31 December 1993, for deficiency payments under article 26 of the Regulations of the Fund, and that the current contribution rate of 23.7 per cent of pensionable remuneration could be maintained for funding purposes, pending a review at the time of the next valuation as at 31 December 1995;

4. Takes note of the review by the Board of the interest rate and mortality table used to determine lump-sum commutations and of its decisions, under article 11 of the Regulations of the Fund, (a) to retain the current 6.5 per cent interest rate, which would be reviewed again by the Standing Committee of the Board in 1995, and (b) to request the Committee of Actuaries to develop a revised UNISEX Mortality Table, based on the longevity assumptions used in the actuarial valuation of the Fund as at 31 December 1993, for the approval of the Standing Committee, and for implementation to determine lump-sum commutations as from 1 July 1995;

5(a) Approves, effective 1 July 1995, an increase in the maximum number of years of creditable contributory service so that the years of contributory service in excess of 35 and performed as from 1 July 1995 shall be creditable at an accumulation rate of 1 per cent per year, subject to a maximum total accumulation rate of 70 per cent;

5(b) Amends accordingly, with effect from 1 July 1995, article 28 of the Regulations of the United Nations Joint Staff Pension Fund, as set out in annex XIV of the report of the Board; a/

6. Concurs with the Transfer Agreements with the Asian Development Bank and the European Bank for Reconstruction and Development, approved by the Board under article 13 of the Regulations of the Fund, with a view to securing continuity of pension rights between the Fund and each of the Banks, as set out in annex VII of the report of the Board; a/

II

PENSIONABLE REMUNERATION

Recalling section II of resolution 45/242, section III of 46/192 and sections IV and VI of 47/203,

Approves, with effect from 1 April 1995, amendments to article 54 of the Regulations of the United Nations Joint Staff Pension Fund, as set out in annex XIV of the report of the United Nations Joint Staff Pension Board, a/ to include the latest scale of pensionable remuneration for staff in the Professional and higher categories, to define the pensionable remuneration of ungraded officials and of participants in the United Nations Field Service category, and to include references to, and place limitations on, the extent to which merit and/or longevity step increments are deemed to be pensionable;

III

PENSION ADJUSTMENT SYSTEM

Recalling section IV of resolution 46/192, section V of 47/203 and section I of 48/225,

1. Takes note of the reviews carried out by the United Nations Joint Staff Pension Board in section VI of its report a/ on various aspects of the pension adjustment system and of its intention to pursue additional studies at its next regular session in 1996;

2. Takes note also of the results of the first monitoring by the Board of the costs of the longer-term modification of the pension adjustment system that entered into effect on 1 April 1992, based on the actual costs during the

period 1 April 1992 to 31 March 1994, which indicated a long-term cost estimate of 0.26 per cent of pensionable remuneration, as against the earlier estimate of 0.30 per cent, and of the intention of the Board to review the matter further at its next regular session on the basis of the second assessment of the actual costs, in the context of the valuation of the Fund as at 31 December 1995;

3. Approves, with effect from 1 July 1995, the reduction in the "120 per cent cap" provision under the pension adjustment system, which is described in paragraph 166 of the report of the Board, to 110 per cent for participants separating from service on or after 1 July 1995, and the consequential changes in the pension adjustment system, as set out in annex XV of the report of the Board; a/

4. Approves, with effect from 1 July 1995, the application to staff in the General Service and related categories of the longer-term modification of the pension adjustment system which entered into effect on 1 April 1992, the consequential revisions in the schedule of cost-of-living differential factors and in the schedule for special adjustments of small pensions under section E of the pension adjustment system, and the consequential changes in the pension adjustment system, as set out in annex XV of the report of the Board; a/

5. Takes note of the decision taken by both the Board and the International Civil Service Commission in their respective reports, a/, b/ to defer to 1996 the submission of recommendations to the General Assembly on possible changes in the special index for pensioners, in the context of the comprehensive review of the pensionable remuneration and consequent pensions of the various categories of staff;

IV

ADMISSION TO MEMBERSHIP OF THE INTERNATIONAL CENTRE FOR GENETIC ENGINEERING AND BIOTECHNOLOGY

Decides to admit the International Centre for Genetic Engineering and Biotechnology to membership in the United Nations Joint Staff Pension Fund, in accordance with article 3 of the Regulations of the Fund, with effect from 1 January 1996, subject to the Centre's adopting, before that date, staff regulations, rules and salary scales which conform to the common system of salaries and other conditions of service;

V

ADMINISTRATIVE EXPENSES

Approves additional expenses of $390,200 (net) for the biennium 1994-1995, chargeable directly to the United Nations Joint Staff Pension Fund, for the administration of the Fund;

VI. OTHER MATTERS

1. Takes note of the observations of the United Nations Joint Staff Pension Board in section VII of its report a/ on the continuing representations made by former participants affected by the application of the Transfer Agreements with the former Union of Soviet Socialist Republics, Ukrainian Soviet Socialist Republic and Byelorussian Soviet Socialist Republic, and of the steps taken thus far by the Board, through its Secretary, to enter into consultations

with the Permanent Mission to the United Nations of the Russian Federation, as well as with the appropriate national authorities, with a view to ascertaining the extent to which the problems that had arisen as regards the interpretation and application of the Transfer Agreements could be resolved;

2. Recognises that the United Nations Joint Staff Pension Fund fully met its legal obligations under the Agreements when it transferred to the Social Security Fund of the former USSR the actuarial value of the pension rights accrued by individual former participants, as required under those Agreements;

3. Urges the parties concerned to explore ways and means to resolve the problems which have arisen in respect of the interpretation and application of the three Transfer Agreements, in a manner consistent with the letter and intent of the terms of the Agreements;

4. Takes note of the decision of the Board not to propose changes at the present time in the size and composition of the Board and of its Standing Committee, but to keep the subject under review and to submit a further report on this matter to the fifty-third session of the General Assembly in 1998;

5. Takes note also of the observations of the Board on attendance at Board sessions and on the frequency of, and attendance at, meetings of the Standing Committee, as well as the changes made in the Rules of Procedure of the Fund with respect to attendance at meetings of the Standing Committee;

6. Takes note of the other matters dealt with in the report of the Board; a/

VII. INVESTMENTS OF THE FUND

1. Takes note of the report of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund, c/ as well as of the observations of the Board in its report a/ on the investments and custodial arrangements for the Fund's assets, and on the membership and size of the Investments Committee;

2. Takes note also with satisfaction that several Member States which had not previously granted tax exemptions for the investments of the Fund have decided to grant such exemptions;

3. Reiterates its request to those Member States which do not grant such exemptions to make all possible efforts to do so as soon as possible.

Notes

a/ Official Records of the General Assembly, Forty-ninth Session, Supplement No. 9 (A/49/9).

b/ Ibid., Supplement No. 30 (A/49/30).

c/ A/C.5/49/3.

d/ A/49/___.